THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Wang On Group Limited (the "Company"), you should at once hand this circular with the accompanying proxy form to the purchaser or the transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

WANG ON GROUP LIMITED
（宏安集團有限公司）*

(incorporated in Bermuda with limited liability)

(Stock Code: 1222)

MAJOR TRANSACTIONS

(1) DISPOSAL OF BUSINESS INTERESTS OF WOD INVESTMENTS LIMITED; AND (2) SUBSCRIPTION OF RIGHTS SHARES PROVISIONALLY ALLOTTED TO WANG ON GROUP LIMITED ON THE RECORD DATE TOGETHER WITH THE APPLICATION FOR 210,000,000 EXCESS RIGHTS SHARES UNDER THE PROPOSED RIGHTS ISSUE OF WAI YUEN TONG MEDICINE HOLDINGS LIMITED

Financial adviser

KINGSWAY CAPITAL LIMITED

A letter from the board of directors of the Company dated 12 May, 2004 is set out on pages 6 to 19 of this circular.

A notice convening a special general meeting of the Company to be held at 37th Floor, Citibank Tower, Citibank Plaza, 3 Garden Road, Central, Hong Kong at 9:30 a.m. on 4 June, 2004 is set out on pages 69 to 70 of this circular. A form of proxy for use at the special general meeting is enclosed with this circular. Whether or not you are able to attend the meeting, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon and deposit with the Company's Hong Kong branch share registrar, Tengis Limited, at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the special general meeting. Completion and return of the form of proxy will not preclude you from attending and voting in person at the special general meeting should you so desire.

* *For identification purpose only*

12 May, 2004

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RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts not contained in this circular, the omission of which would make any statement herein misleading.

In this circular (other than in the notice of the SGM), the following expressions have the meanings respectively set opposite them unless the context otherwise requires:

"2002 Convertible Notes"	the convertible notes having an aggregate principal amount of HK$36,500,000, convertible into WYT Shares at HK$1.00 each, issued by WYT to a subsidiary of the Company on 9 July, 2002
"2004 Convertible Notes"	the convertible notes having an aggregate principal amount of HK$20,000,000, convertible into WYT Shares at HK$0.70 each, issued by WYT to a subsidiary of the Company on 30 March, 2004
"associates"	has the meaning ascribed thereto in the Listing Rules
"Board"	the board of the Directors
"Bonus Share(s)"	not less than 552,773,845 and not more than 552,788,529 new WYT Shares to be allotted and issued to the first registered holders of the Rights Shares on the basis of one bonus share (credited as fully paid) for every three fully paid Rights Shares
"Business Day"	any day (other than Saturday) on which licensed banks in Hong Kong are generally open for business throughout their normal business hours
"Capital Adjustment"	the cancellation of the authorised but unissued WYT Shares and the restoration of the authorised share capital of WYT to its original amount by the creation of the requisite number of New WYT Shares
"Capital Reduction"	the proposed reduction of the nominal value of each of the issued WYT Shares from HK$0.10 each to HK$0.01 by the cancellation of HK$0.09 paid up on each issued WYT Share
"Capital Reorganisation"	the Capital Reduction and the Capital Adjustment
"Companies Act"	the Companies Act 1981 of Bermuda
"Conditional Sale and Purchase Agreement"	the conditional sale and purchase agreement dated as of 8 April, 2004 entered into between, amongst others, Wang On (BVI) and Source Millennium in respect of the sale and purchase of the entire issued share capital of WOD and a related shareholder's loan

"Convertible Loan Stock"	the convertible unsecured loan stock issued by WYT on 12 January, 1999
"Convertible Securities"	the Share Options and the Convertible Loan Stock entitling the relevant holders to subscribe/convert an aggregate of 14,684 WYT Shares, excluding those Share Options which the two holders thereof have undertaken not to exercise
"Directors"	the directors of the Company, including the independent non-executive directors of the Company
"Disposal"	the sale and purchase of the entire issued share capital of WOD and a related shareholder's loan pursuant to the Conditional Sale and Purchase Agreement
"Group"	the Company and its subsidiaries
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Independent Accountant"	an international firm of accountants as agreed between Wang On (BVI) and Source Millennium
"Irrevocable Undertaking"	the conditional irrevocable undertaking given by the Company to (a) subscribe or procure the subscription of its or its subsidiaries' full entitlement pursuant to the Rights Issue; (b) make or procure an application for an aggregate of 210,000,000 excess Rights Shares; and (c) procure its subsidiary not to exercise the conversion rights attaching to the 2002 Convertible Notes and the 2004 Convertible Notes prior to the latest time for acceptance of the Rights Shares
"Joint Announcement"	a joint announcement dated 20 April, 2004 issued by WYT and the Company regarding, amongst other things, the Disposal, the Rights Issue, Capital Reorganisation, amendments of Bye-Laws of WYT and a continuing connected transaction of WYT
"Kingston"	Kingston Securities Limited, a deemed licensed corporation to carry out business in types 1, 4, 6 and 9 regulated activities under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)

"Kingsway"	Kingsway Financial Services Group Limited, a deemed licensed corporation to carry out business in types 1, 4, 6, 7 and 9 regulated activities under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Last Trading Day"	7 April, 2004, being the last trading day before the suspension of the trading of WYT Shares and the Shares on the Stock Exchange pending the publication of the joint announcement dated 20 April, 2004 of WYT and the Company
"Latest Practicable Date"	7 May, 2004, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information for inclusion in this circular
"Lease"	the lease of part of WYT Building by the Company (or its subsidiary) upon completion of the Disposal pursuant to the Conditional Sale and Purchase Agreement
"Leased Property"	the part of WYT Building to be leased by the Company (or its subsidiary) pursuant to the Lease
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"New WYT Shares"	shares of HK$0.01 each in the share capital of WYT upon the Capital Reorganisation becoming effective
"PRC"	the People's Republic of China
"Prospectus Documents"	the Rights Issue prospectus, the Application Form and the form of application for excess Rights Shares
"Record Date"	4 June, 2004, being the date by reference to which entitlements to the Rights Issue will be determined
"Registrar"	Tengis Limited of Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong
"Rights Issue"	the proposed issue of the Rights Shares by way of rights issue, together with Bonus Shares, to the Qualifying Shareholders on the terms to be set out in the Prospectus Documents and summarised herein

"Rights Share(s)"	not less than 1,658,321,535 and not more than 1,658,365,587 New WYT Shares proposed to be offered to the Qualifying Shareholders for subscription on the basis of three rights shares for every WYT Share held on the Record Date pursuant to the Rights Issue
"SGM"	the special general meeting to be convened by the Company at 37th Floor, Citibank Tower, Citibank Plaza, 3 Garden Road, Central, Hong Kong at 9:30 a.m. on 4 June, 2004 to approve the matters referred to herein
"Share Options"	the options to subscribe for WYT Shares granted under the share option schemes adopted by WYT on 16 October, 1997 and 18 September, 2003
"Shareholders"	holder(s) of the Shares
"Shares"	ordinary shares of HK$0.10 each in the share capital of the Company
"Source Millennium"	Source Millennium Limited, a wholly-owned subsidiary of WYT
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Subscription Price"	the subscription price of HK$0.16 per Rights Share
"Underwriters"	Kingston and Kingsway
"Underwriting Agreement"	the underwriting agreement dated 8 April, 2004 entered into between WYT and the Underwriters in relation to the Rights Issue
"Valuation Report"	the valuation report on the WYT Building issued by the Valuer
"Valuer"	Vigers Appraisal and Consulting Limited, an independent professional valuer
"Wang On" or the "Company"	Wang On Group Limited, a company incorporated in Bermuda with limited liability and the shares of which are listed on the Stock Exchange
"Wang On (BVI)"	Wang On Enterprises (BVI) Limited, a wholly-owned subsidiary of Wang On

"WOD"	WOD Investments Limited, a wholly-owned subsidiary of Wang On (BVI)
"WYT"	Wai Yuen Tong Medicine Holdings Limited, a company incorporated in Bermuda with limited liability and the shares of which are listed on the Stock Exchange
"WYT Board"	the board of the WYT Directors
"WYT Building"	Wai Yuen Tong Medicine Building, a six-storey building situated at 9 Wang Kwong Road, Kowloon Bay, Kowloon, Hong Kong
"WYT Directors"	the directors of WYT, including the independent non-executive directors of WYT
"WYT Group"	WYT and its subsidiaries
"WYT Qualifying Shareholders"	WYT Shareholders, whose names appear on the register of members of WYT as at the close of business on the Record Date and whose addresses as shown in the register of members of WYT are in Hong Kong
"WYT SGM"	the special general meeting of WYT to be convened to be held to approve, among others, the Disposal and the Rights Issue
"WYT Shareholder(s)"	holder(s) of WYT Shares
"WYT Shares"	shares of HK$0.10 each in the share capital of WYT prior to the Capital Reorganisation
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"sq.m."	square meters

WANG ON GROUP LIMITED
（宏安集團有限公司）*

(incorporated in Bermuda with limited liability)

(Stock Code: 1222)

Executive Directors:
Mr. Tang Ching Ho
(Chairman and Managing Director)
Ms. Yau Yuk Yin *(Deputy Chairman and Deputy Managing Director)*
Mr. Chan Chun Hong, Thomas

Independent Non-executive Directors:
Dr. Lee Peng Fei, Allen, CBE, JP
Mr. Wong Chun, Justein, MBE, JP
Dr. Siu Yim Kwan, Sidney, S.B. St.J.

Registered office:
Clarendon House
2 Church Street
41 Cedar Avenue
Hamilton HM 11
Bermuda

Head office and principal place of business:
5th Floor
Wai Yuen Tong Medicine Building
9 Wang Kwong Road
Kowloon Bay
Kowloon
Hong Kong

12 May, 2004

To the Shareholders and holders of the share options

Dear Sir or Madam,

MAJOR TRANSACTIONS

(1) DISPOSAL OF BUSINESS INTERESTS OF WOD INVESTMENTS LIMITED;
AND
(2) SUBSCRIPTION OF RIGHTS SHARES PROVISIONALLY ALLOTTED TO WANG ON GROUP LIMITED ON THE RECORD DATE TOGETHER WITH THE APPLICATION FOR 210,000,000 EXCESS RIGHTS SHARES UNDER THE PROPOSED RIGHTS ISSUE OF WAI YUEN TONG MEDICINE HOLDINGS LIMITED

INTRODUCTION

In the Joint Announcement, the Board announced that, amongst other things, Wang On (BVI), Source Millennium, the Company and WYT entered into the Conditional Sale and

* *For identification purpose only*

Purchase Agreement dated as of 8 April, 2004 whereby Wang On (BVI) has agreed to sell and Source Millennium has agreed to purchase the entire issued share capital of WOD and a related shareholder's loan at an initial consideration of HK$64,485,762 (subject to adjustment).

It was also announced in the Joint Announcement that, subject to the satisfaction of the conditions of the Rights Issue as mentioned in the paragraph headed "Conditions of the Rights Issue" below, WYT proposed to raise approximately HK$265.3 million, before expenses, by issuing not less than 1,658,321,535 Rights Shares and not more than 1,658,365,587 Rights Shares at a price of HK$0.16 per Rights Share by way of the Rights Issue on the basis of three Rights Shares for every WYT Share held on the Record Date. WYT also proposes to issue Bonus Shares on the basis of one Bonus Share for every three fully paid Rights Shares. Pursuant to the Irrevocable Undertaking, the Company, being the substantial shareholder of WYT, has conditionally irrevocably undertaken to take up or procure to take up all its or its subsidiaries' entitlement under the Rights Issue (being 325,393,989 Rights Shares) and, in addition, to make or procure an excess application for 210,000,000 Rights Shares under the Rights Issue. Such undertaking is subject to the approval of the Shareholders at the SGM. WYT Board also announced that they intend to put forward the Capital Reorganisation but it is not conditional upon the implementation of the Rights Issue.

Each of the subscription by the Company of its entitlement of the Rights Shares together with the application for 210,000,000 excess Rights Shares by the Company under the Rights Issue and the Disposal constitutes a major transaction for the Company under the Listing Rules and is subject to Shareholders' approval at the SGM.

The purpose of this circular is to give you further information regarding, among other things, the subscription by the Company of its entitlement of the Rights Shares together with the application for 210,000,000 excess Rights Shares by the Company under the Rights Issue and the Conditional Sale and Purchase Agreement, and to give you the notice convening the SGM to consider and approve, among other things, (i) the subscription by the Company of its entitlement of the Rights Shares together with the application for 210,000,000 excess Rights Shares by the Company under the Rights Issue; and (ii) the Conditional Sale and Purchase Agreement in accordance with the Listing Rules.

CONDITIONAL SALE AND PURCHASE AGREEMENT

Date:	As of 8 April, 2004
Parties:	Wang On (BVI) (as vendor) Source Millennium (as purchaser) the Company WYT
Subject:	the entire issued share capital of WOD and a related shareholder's loan

Consideration and payment terms

Pursuant to the Conditional Sale and Purchase Agreement, Source Millennium has conditionally agreed to acquire the entire issued share capital of WOD and a related shareholder's loan from Wang On (BVI) for an aggregate cash consideration of HK$64,485,762 (subject to adjustment). The terms of the Conditional Sale and Purchase Agreement were arrived at after arm's length negotiation and are on normal commercial terms. The price payable by Source Millennium is based on the book value of the shareholder's loan to WOD and the unaudited net deficit of WOD as at 31 March, 2004 as adjusted by the valuation of WYT Building of HK$85 million as stated in the Valuation Report made by the Valuer. The Valuation Report is set out in Appendix II of this circular.

The consideration shall be payable by Source Millennium to Wang On (BVI) in full by cash, which will be financed by the proceeds of the Rights Issue.

Guarantee

Pursuant the Conditional Sale and Purchase Agreement, the Company has guaranteed the obligations of Wang On (BVI) and WYT has guaranteed the obligations of Source Millennium.

Undertaking by WYT and Source Millennium

WYT and Source Millennium have undertaken to procure the relevant bank to release the corporate guarantee given by the Company in favour of the relevant bank in respect of the bank loan to WOD and other entities within 3 months after completion of the Conditional Sale and Purchase Agreement. Such bank loan amounted to approximately HK$21.24 million as at 31 March, 2004.

Completion accounts and adjustment to consideration

Wang On (BVI) and Source Millennium are required to procure the Independent Accountant to prepare completion accounts within two weeks of completion of the Conditional Sale and Purchase Agreement. The completion accounts are to be prepared in accordance with Hong Kong generally accepted accounting practices and will show the value of the WYT Building as at the date of the Conditional Sale and Purchase Agreement as determined by the Valuer.

The adjustment amount (being the initial consideration of HK$64,485,762 less the total shareholder's equity/deficiency plus the shareholder's loans of WOD as set out in the completion accounts) must be paid by Source Millennium to Wang On (BVI) (if it is a negative amount) or by Wang On (BVI) to the Source Millennium (if it is a positive amount) within 3 Business Days after the issue of the completion accounts by the Independent Accountant, provided that if the adjustment amount is negative and exceeds 10% of the initial purchase price of

HK$64,485,762, the adjustment amount payable by Source Millennium shall be limited to HK$6,448,576.20, being 10% of such initial purchase price. There is no such limit on the adjustment amount payable by Wang On (BVI) if the adjustment amount is positive.

The Lease

Pursuant to the Conditional Sale and Purchase Agreement, upon completion of the Disposal, the Company (or its subsidiary) will lease the Leased Property from WOD for a monthly rental based on the fair market rent of the Leased Property as at 8 April, 2004 of HK$196,000 per month as stated in a valuation report issued by the Valuer.

Conditions of the Conditional Sale and Purchase Agreement and date of completion

The Conditional Sale and Purchase Agreement is conditional upon, among other things,

(i) completion of the Rights Issue;

(ii) approval by Shareholders at the SGM for (a) the subscription by the Company and its subsidiaries of their entitlement of the Rights Shares together with the application for 210,000,000 excess Rights Shares by the Company and its subsidiaries under the Rights Issue; and (b) the Conditional Sale and Purchase Agreement in accordance with the Listing Rules; and

(iii) approval by the Independent WYT Shareholders at the WYT SGM for the Conditional Sale and Purchase Agreement in accordance with the Listing Rules.

If the above conditions have not been fulfilled by 31 August, 2004, or such later date as the parties may agree, the Conditional Sale and Purchase Agreement shall terminate and be of no further material effect. The consideration shall be paid by Source Millennium at completion which is to occur on the Business Day after the satisfaction of the last condition precedent of the Conditional Sale and Purchase Agreement or such other dates as otherwise agreed by Wang On (BVI) and Source Millennium.

INFORMATION ON WOD

WOD, an indirect wholly-owned subsidiary of the Company, is a property holding company and its principal asset is WYT Building, which is a six-storey building situated at 9 Wang Kwong Road, Kowloon Bay, Kowloon, Hong Kong and is used mainly for commercial and industrial uses. The gross floor area of WYT Building is approximately 10,500 sq.m.. Part of the 1st floor of WYT Building is currently used as parking area for the use of the Group and WYT Group.

WOD has entered into two tenancy agreements for the lease of an aggregate of approximately 7,084 sq.m. (representing approximately 67.47% of the total floor area) of WYT Building with (i) WYT Medicine Company Limited, a 99.79% indirect owned subsidiary of WYT at a monthly rental fee of HK$300,000 in July 2003 for a term of three years; and (ii) Luxembourg Medicine Company Limited, a 99.79% indirect owned subsidiary of WYT at a monthly rental fee of HK$75,000 in April, 2003 for a term of three years. The tenancy agreements entered into between WOD and WYT Medicine Company Limited were disclosed in the announcement of WYT dated 25 July, 2003. Other than the aforesaid two tenancy agreements, the remaining area of approximately 3,416 sq.m. of the WYT Building is currently fully used by the Group.

For the two financial years ended 31 March, 2003, WOD recorded audited net losses of approximately HK$1,713 and HK$4.02 million respectively. The losses were mainly attributable to administrative expenses incurred in the respective years and deficit on revaluation of investment property for the financial year 2003. There were no tax payments recorded by WOD during the two financial years of 2002 and 2003.

In accordance with the management account of WOD, the unaudited net tangible liabilities of WOD as at 31 March, 2004 (as adjusted by the valuation of WYT Building) was approximately HK$7.53 million. The bank loans and shareholder's loan amounted to approximately HK$21.24 million and HK$72.02 million respectively.

REASONS FOR THE DISPOSAL AND USE OF PROCEEDS

As stated in the paragraph headed "Information on WOD" of this circular, WYT Building is a six-storey building and is owned by the Group via its indirect wholly owned subsidiary, WOD, and is currently used by the Group and WYT Group. Presently, an aggregate of approximately 7,084 sq.m. (representing approximately 67.47% of the total floor area) is occupied by WYT Group under two leases with a total monthly rental of HK$375,000.

The initial consideration of HK$64,485,762 was based on the book value of the shareholder's loan to WOD of HK$72,016,054 and was deducted by the unaudited net deficit of WOD as at 31 March, 2004 of HK$7,530,292 (as adjusted by the valuation of WYT Building of HK$85 million as stated in the Valuation Report made by the Valuer). In accordance with the Conditional Sale and Purchase Agreement, the consideration is subject to adjustment and the calculation of such adjustment amount is stated in the paragraph headed "Completion accounts and adjustment to consideration" of the Joint Announcement. Accordingly, the Company is not expected to make any material gain or loss as a result of the Disposal. The Directors consider that the Disposal will assist to realise its investment and the proceeds of which will be applied as to approximately HK$32.2 million for its future property developments and investments and the remaining of approximately HK$32.2 million (subject to adjustment as stated in the paragraph headed "Completion accounts and adjustment to consideration" of the Joint Announcement) for general working capital of the Group.

RIGHTS ISSUE AND UNDERWRITING AGREEMENT

It was announced in the Joint Announcement that, subject to the satisfaction of the conditions of the Rights Issue as mentioned in the paragraph headed "Conditions of the Rights Issue" below, WYT proposed to raise approximately HK$265.3 million by way of the Rights Issue on the basis of three Rights Shares for every WYT Share held on the Record Date. WYT also proposes to issue Bonus Shares on the basis of one Bonus Share for every three fully paid Rights Shares.

As at the Latest Practicable Date, the Group was interested in 108,464,663 WYT Shares, representing approximately 19.62% of WYT's existing issued share capital.

Issue statistics

Basis of the Rights Issue:	three Rights Shares for every one WYT Share held on the Record Date with one Bonus Share for every three Rights Shares taken up
Subscription price:	HK$0.16 per Rights Share. Taking into account the Bonus Shares being issued with the Rights Shares, the effective price for each Rights Share is approximately HK$0.12 which represents: (i) a discount of approximately 66.7% to the closing price of HK$0.36 per WYT Share as quoted on the Stock Exchange on the Last Trading Day; (ii) a discount of approximately 28.6% to the theoretical ex-entitlement price of approximately HK$0.168 per share based on the closing price per WYT Share on the Last Trading Day; (iii) a discount of approximately 70.4% to the average closing price of HK$0.405 per WYT Share as quoted on the Stock Exchange for the last 10 consecutive trading days up to and including the Last Trading Day;

	(iv) a discount of approximately 8.0% to the closing price of HK$0.174 per WYT Share on the Latest Practicable Date; and
	(v) a premium of approximately 5.3% to the average closing price of HK$0.152 per WYT Share for the last ten trading days up to and including the Latest Practicable Date.
	The Subscription Price was determined after arm's length negotiation between WYT and the Underwriters.
Number of WYT Shares in issue as at the Latest Practicable Date:	552,773,845 WYT Shares
Number of Rights Shares to be issued:	not less than 1,658,321,535 Rights Shares and not more than 1,658,365,587
Number of Bonus Shares to be issued:	not less than 552,773,845 Bonus Shares and not more than 552,788,529 Bonus Shares
Estimated proceeds of the Rights Issue:	approximately HK$265.33 million, before expenses
Use of proceeds:	will be applied as to approximately HK$15 million for repayment of bank loans; approximately HK$64 million for redemption of the 2002 Convertible Notes, the 2004 Convertible Notes and repayment of shareholders' loan, approximately HK$64.5 million for acquisition of the entire issued share capital of WOD, approximately HK$25 million to open new retail shops and for the expansion and upgrading of production facilities, approximately HK$35 million for the possible investment in new business opportunities and the remaining balance of approximately HK$46.5 million for general working capital of WYT Group

Number of Rights Shares undertaken to be taken up by the Group:	pursuant to the Irrevocable Undertaking, the Company has conditionally irrevocably undertaken to take up or procure to take up all its or its subsidiaries' entitlement under the Rights Issue (being 325,393,989 Rights Shares) and, in addition, to make or procure an excess application for 210,000,000 Rights Shares under the Rights Issue. Such undertaking is subject to the approval of the Shareholders at the SGM
Payments by the Company:	depending on the level of acceptances of the Rights Shares and excess applications of the Rights Shares by the WYT Qualifying Shareholders, and transferees of nil-paid Rights Shares, the amount to be payable by the Company would be between approximately HK$52.06 million (assuming all WYT Qualifying Shareholders take up their Rights Shares in full) to approximately HK$85.66 million (assuming the excess application for 210,000,000 Rights Shares pursuant to the Irrevocable Undertaking are fully allotted to the Company)
Underwriters:	Kingston and Kingsway
Number of Rights Shares underwritten by the Underwriters:	not more than 1,122,971,598 Rights Shares, of which not more than 561,485,799 Rights Shares are fully underwritten by each of Kingston and Kingsway
Number of New WYT Shares in issue upon completion of the Rights Issue:	not less than 2,763,869,225 New WYT Shares and not more than 2,763,942,645 New WYT Shares

As at the Latest Practicable Date, the Group was the holder of the 2002 Convertible Notes and 2004 Convertible Notes entitling the Group to subscribe for an aggregate of 65,071,428 WYT Shares (subject to adjustment). Pursuant to the Irrevocable Undertaking, the Company has conditionally irrevocably undertaken to procure its subsidiary not to exercise the conversion rights attaching to the 2002 Convertible Notes and the 2004 Convertible Notes prior to the latest time for acceptance of the Rights Shares.

As at the Latest Practicable Date, there were outstanding Share Options and Convertible Loan Stock entitling the relevant holders to subscribe/convert an aggregate of 57,600 WYT Shares and 84 WYT Shares (subject to adjustment) respectively. Two of the holders of the Share Options have severally irrevocably undertaken that they will not exercise their respective Share Options entitling them to subscribe for an aggregate of 43,000 WYT Shares (subject to adjustment) prior to the latest time for acceptance of the Rights Shares.

Save for the aforesaid 2002 Convertible Notes, the 2004 Convertible Notes, the Share Options and the Convertible Loan Stock, WYT has no outstanding options, warrants or other instruments convertible into WYT Shares.

CONDITIONS OF THE UNDERWRITING AGREEMENT

The Underwriting Agreement is conditional upon, among other things:

(i) the passing by the Independent WYT Shareholders at the WYT SGM of resolutions to approve the Rights Issue and the passing by the WYT Shareholders at the WYT SGM of resolutions to approve the Capital Reorganisation;

(ii) the passing by WYT Shareholders at the WYT SGM of a resolution to amend the bye-laws of WYT to allow a distribution to WYT Shareholders on such non pro-rata basis as WYT Shareholders may approve;

(iii) the passing by the Shareholders at the SGM of a resolution to approve the subscription of Rights Shares together with the application of 210,000,000 excess Rights Shares by the Group under the Rights Issue;

(iv) the Listing Committee of the Stock Exchange granting or agreeing to grant (subject to allotment) and not having withdrawn or revoked listing of, and permission to deal in, the Rights Shares, in their nil-paid and fully-paid forms, and the Bonus Shares;

(v) the delivery to the Stock Exchange for authorisation and the registration with the Registrar of Companies in Hong Kong respectively one copy of each of the Prospectus Documents in compliance with the Listing Rules and the Companies Ordinance (Cap. 32 of the laws of Hong Kong) and the filing of one copy of each of the Prospectus Documents with the Registrar of Companies in Bermuda.

None of the conditions above can be waived by the Underwriters. The Rights Issue is subject to the Underwriting Agreement becoming unconditional and not being terminated in accordance with its terms, which is expected to be on or before 5:00 p.m., Friday, 25 June, 2004, being the third Business Day after the date on which the latest time for acceptance of the Rights Shares falls, or such date as may be agreed between WYT and the Underwriters.

FINANCIAL AND TRADING PROSPECTS OF THE GROUP

The Group is principally engaged in the management and sub-licensing of Chinese wet markets, shopping centres and car parks, retail business, property development and property investment. It also has interests in the pharmaceutical business through its investments in WYT.

As disclosed in the 2003 interim report of the Company, the turnover and net profit attributable to the Shareholders of the Group for the six months ended 30 September, 2003 amounted to approximately HK$156.3 million and HK$7.2 million, respectively, representing the increases of approximately 1.9% and 53.3%, respectively, from the six months ended 30 September, 2002.

Management and sub-licensing of Chinese wet markets

With the grand opening of the Chinese wet market at Yu Chui Shopping Centre, Shatin in January 2003, the Group currently operates more than 12 Chinese wet markets and continues to be the largest single operator of Chinese wet markets in Hong Kong.

The Group had also entered into a lease agreement for the operation of a Chinese wet market in Guangzhou with a gross area of 2,524.5 sq.m. in early 2004. The Directors will continue to look for opportunities to expand this area of business, including expansion to the PRC.

Management and sub-licensing of shopping centres and car parks

The Group was granted a new car park management contract, with over 1,800 car parking bays mainly located in Kowloon East and Tung Chung, for the Housing Authority in April 2003. In view of the continuing privatisation policy of the government, the Directors are optimistic of the future prospects of this area of business.

Investment in pharmaceutical business through investment in WYT

Through the continuing expansion of its Chinese pharmaceutical business and the diversification into the western pharmaceutical business, the Directors are confident of the long term prospects of the pharmaceutical business of WYT and expect this investment will generate stable returns to the Group in the future.

Retail business

Taking advantage of the Group's retail network in Chinese wet markets, the Group has diversified into the retail fresh meat selling business and is expected to generate satisfactory return to the Group.

Property development

As disclosed in the Company's announcement dated 30 March, 2004, the Company, through its wholly owned subsidiary, purchased a piece of leasehold land located in Shatin, Hong Kong. The Group currently plans to develop the property into a low density residential area intended for sale and/or lease. The Directors consider that this property development project represents a milestone for the Group to diversify into the property development business.

In view of the gradual recovery of the property market in Hong Kong and the expertise and experience of the Group in building construction and properties, the Directors are optimistic of the future prospects of the property development business. This area of business has become part of the Group's ordinary and usual course and its related transactions are for accounting purposes treated as revenue nature. The Directors also expect to expand further into this area of business.

Property investment

With the gradual recovery of the Hong Kong economy and the property market, the Directors believe that the Group's existing investment property portfolio will secure the Group's long term stable return and a long term capital appreciation is also expected, in particular in the retail sector.

With the gradual recovery of the Hong Kong economic environment and the Group's strong financial resources, the Group will continue to strengthen its existing business whilst continuing to seek new business opportunities to enhance the Shareholders' returns.

REASONS FOR APPLICATION FOR EXCESS RIGHTS SHARES BY WANG ON

Pursuant to the Irrevocable Undertaking, the Company, being the substantial shareholder of WYT, has conditionally irrevocably undertaken to take up or procure to take up all its or its subsidiaries' entitlement under the Rights Issue (being 325,393,989 Rights Shares, amounting to approximately HK$52.06 million) and in addition, to make or procure an excess application for 210,000,000 Rights Shares (amounting to approximately HK$33.6 million) under the Rights Issue. Such undertaking is subject to the approval of the Shareholders at the SGM.

As disclosed in the interim report of the Company for the six months ended 30 September, 2003, despite the loss recorded by WYT for the six months under review, the Directors are still confident of its long term prospects because of the improvement in the worldwide economy and the increasing contribution from its pharmaceutical business such as the continuing expansion of its Chinese pharmaceutical business and its diversification into the western pharmaceutical business under the brand name of "Madame Pearl's" through the acquisition of Luxembourg Medicine Company Limited in July 2003. The Directors therefore intend to maintain the Company's percentage shareholding in WYT by way of subscribing or procuring the subscription of its or its subsidiaries' entitlement to Rights Shares and further increase such percentage shareholding in WYT by way of making or procuring the application for excess Rights Shares. In addition, the Directors consider that the Group's subscription of Rights Shares and application of excess for Rights Shares will facilitate the completion of the Rights Issue which will strengthen the financial position of WYT and the Group will be benefited accordingly by virtue of its shareholding in WYT. Accordingly, the Directors consider that the subscription for the Group's entitlement to Rights Shares and application for excess Rights Shares are in the interest of the Shareholders as a whole.

WYT

The WYT Group is principally engaged in the production and sale of (i) traditional Chinese medicine which includes Chinese medicinal products sold under the name of "Wai Yuen Tong" and a range of products manufactured by selected medicinal materials with traditional prescription, mainly in the PRC and Hong Kong; and (ii) western pharmaceutical products under the brand name of "Madame Pearl's".

The following is the shareholding structure of WYT immediately before and after completion of the Rights Issue, assuming no Convertible Securities have been exercised/ converted prior to the completion of the Rights Issue:

	Immediately before completion of the Rights Issue		Immediately after completion of the Rights Issue (assuming all Qualifying Shareholders take up their respective entitlements under the Rights Issue)		Immediately after completion of the Rights Issue (assuming no Qualifying Shareholder takes up his/her/its entitlement under the Rights Issue, except that Wang On takes up all its entitlement under the Rights Shares and the 210,000,000 Rights Shares under the excess application made by Wang On pursuant to the Irrevocable Undertaking)	
	Shares	*Percentage*	*Shares*	*Percentage*	*Shares*	*Percentage*
The Group	108,464,663	19.62%	542,323,315	19.62%	822,323,315	29.75%
Kingston	–	–	–	–	748,618,364	27.09%
Kingsway	–	–	–	–	748,618,364	27.09%
Public	444,309,182	80.38%	2,221,545,910	80.38%	444,309,182	16.07%
Total	552,773,845	100%	2,763,869,225	100%	2,763,869,225	100%

The estimated net proceeds from the Rights Issue will be approximately HK$250 million, which is intended to be applied as to approximately HK$15 million for repayment of bank loans; approximately HK$64 million for redemption of the 2002 Convertible Notes, the 2004 Convertible Notes and repayment of shareholders' loan, approximately HK$64.5 million for acquisition of the entire issued share capital of WOD, approximately HK$25 million to open new retail shops and for the expansion and upgrading of production facilities, approximately HK$35 million for the possible investment in new business opportunities and the remaining balance of approximately HK$46.5 million for general working capital of WYT Group. The WYT Directors consider that the Rights Issue could strengthen the financial position of WYT Group and it will enable suitable investments to be made promptly as and when the opportunities arise.

The WYT Directors consider that the Rights Issue will enlarge the capital base of WYT and the Rights Issue provides an opportunity to WYT Shareholders to participate in the growth of WYT. The WYT Directors also consider that the Bonus Shares to be issued with the Rights Shares will make the Rights Issue attractive to the WYT Shareholders. The WYT Directors consider that the Rights Issue is in the interest of WYT and the WYT Shareholders as a whole.

LISTING RULES IMPLICATIONS

Each of the Disposal and subscription of the Rights Shares provisionally allotted to the Group on the Record Date together with the application for 210,000,000 excess Rights Shares by the Group under the Rights Issue constitutes a major transaction under the Listing Rules, which requires the Shareholders' approval at the SGM.

SGM

A notice of the SGM to be held at 37th Floor, Citibank Tower, Citibank Plaza, 3 Garden Road, Central, Hong Kong at 9:30 a.m. on Friday, 4 June, 2004 is set out on pages 69 and 70 of this circular. At such meeting, an ordinary resolution will be proposed to approve, among other things, (i) the subscription by the Company of its entitlement of the Rights Shares together with the application for 210,000,000 excess Rights Shares by the Company under the Rights Issue; and (ii) the Conditional Sale and Purchase Agreement.

A form of proxy for use at the SGM is enclosed with this circular. Whether or not you are able to attend the SGM, you are requested to complete and return the enclosed form of proxy in accordance with the instruction printed thereon and deposit with the Company's Hong Kong branch share registrar, Tengis Limited, at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the SGM. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM should you so desire.

RECOMMENDATION

The Directors consider that each of the subscription by the Company of its entitlement of the Rights Shares together with the application for 210,000,000 excess Rights Shares by the Company under the Rights Issue and the terms of the Disposal are fair and reasonable so far as the Shareholders are concerned and are of the best interests of the Company and the Shareholders as a whole. The Directors recommend the Shareholders to vote in favour of the resolutions to be proposed at the SGM.

ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the Appendices (on pages 20 to 68) of this circular.

Yours faithfully,
On behalf of the Board of
Wang On Group Limited
Tang Ching Ho
Chairman and Managing Director

1. SUMMARY OF AUDITED FINANCIAL INFORMATION

The following is a summary of the results and financial position of the Group for the three years ended 31 March, 2003.

Results

	Year ended 31 March		
	2003	**2002**	**2001**
	HK$'000	*HK$'000*	*HK$'000*
Turnover	292,156	320,047	211,998
Profit/(loss) before taxation	45,141	34,123	(47,938)
Taxation	(3,207)	(3,634)	138
Profit/(loss) after taxation	41,934	30,489	(47,800)
Minority interest	(641)	(2,789)	287
Profit/(loss) for the year	41,293	27,700	(47,513)

Financial position

	At 31 March		
	2003	**2002**	**2001**
	HK$'000	*HK$'000*	*HK$'000*
Total assets	779,351	646,981	331,295
Total liabilities	(158,531)	(168,413)	(163,550)
Minority interest	(324)	(10,569)	(7,829)
Surplus of shareholders' funds	620,496	467,999	159,916

2. INDEBTEDNESS

As at 31 March, 2004, the Group had secured outstanding bank borrowings of approximately HK$104.6 million. These facilities were secured by certain of the Group's investment properties, rental income from certain of the Group's sub-licensing operations of Chinese wet markets and shopping centres and corporate guarantees given by the Company.

Save as aforesaid and apart from intra-group liabilities and normal accounts payable, the Group did not have any mortgages, charges, debentures, loan capital, bank loans and overdrafts, debt securities or other similar indebtedness, finance leases or hire purchase commitments, liabilities under acceptances or acceptances creditors, or any guarantees, or other material contingent liabilities outstanding at the close of business on 31 March, 2004.

The Directors are not aware of any material adverse changes in the Group's indebtedness position and contingent liabilities since 31 March, 2004.

3. WORKING CAPITAL

The Board is of the opinion that, following the completion of the Disposal, taking into account the financial resources available to the Group, including internal resources and present available banking facilities, and in the absence of unforeseen circumstances, the Group will have sufficient working capital for its present requirements.

4. MATERIAL CHANGE

The Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 March, 2003, being the date to which the latest published audited accounts of the Group were made up.

1. SUMMARY OF AUDITED FINANCIAL INFORMATION

The following is a summary of the results and financial position of the WYT Group for the three years ended 31 March, 2003.

Results

	Year ended 31 March		
	2003	**2002**	**2001**
	HK$'000	*HK$'000*	*HK$'000*
Turnover	259,824	220,812	240,358
Loss before taxation	(26,615)	(33,682)	(31,260)
Taxation	(2,302)	(105)	(231)
Loss after taxation	(28,917)	(33,787)	(31,491)
Minority interest	(29)	235	–
Loss for the year	(28,946)	(33,552)	(31,491)

Financial position

	At 31 March,		
	2003	**2002**	**2001**
	HK$'000	*HK$'000*	*HK$'000*
Total assets	319,685	83,460	111,182
Total liabilities	(233,557)	(130,282)	(124,452)
Minority interest	(94)	–	–
Surplus (deficiency) of shareholders' funds	86,034	(46,822)	(13,270)

2. EXTRACT OF THE FINANCIAL STATEMENTS

The following audited consolidated financial statements of the WYT Group are extracted from pages 21 to 71 of the annual report of WYT for the year ended 31 March, 2003.

Consolidated Income Statement

For the year ended 31st March, 2003

	Notes	**2003** *HK$'000*	**2002** *HK$'000*
Turnover	*4*	259,824	220,812
Cost of sales		(147,314)	(148,199)
Gross profit		112,510	72,613
Other operating income		3,548	2,609
Distribution costs		(54,654)	(27,185)
Administrative expenses		(79,379)	(72,647)
Loss from operations	*5*	(17,975)	(24,610)
Finance costs	*6*	(8,651)	(9,072)
Share of results of associates		11	–
Loss before taxation		(26,615)	(33,682)
Taxation	*9*	(2,302)	(105)
Loss before minority interests		(28,917)	(33,787)
Minority interests		(29)	235
Loss for the year		(28,946)	(33,552)
Loss per share	*10*		
– Basic		(0.28 cents)	(25.4 cents)

Consolidated Balance Sheet
At 31st March, 2003

	Notes	2003 HK$'000	2002 HK$'000
Non-current assets			
Investment properties	11	3,600	4,000
Property, plant and equipment	12	30,001	22,544
Goodwill	13	179,630	–
Interests in associates	15	1,968	–
Loan receivable	16	808	–
Trademarks	17	503	28
		216,510	26,572
Current assets			
Inventories	18	47,979	27,848
Trade and other receivables	19	31,668	22,167
Amounts due from associates	15	1,855	–
Loan receivable	16	129	–
Taxation recoverable		36	36
Bank balances and cash		21,508	6,837
		103,175	56,888
Current liabilities			
Trade and other payables	20	55,999	48,178
Loan from and interest payable to a director	21	9,780	8,774
Loans from and interest payable to a shareholder	21	17,318	900
Amount due to a related company	22	–	223
Obligations under finance leases	23	614	479
Bank and other borrowings	24	13,947	5,545
Deferred franchise income	25	240	–
Convertible loan stock	26	6	290
Taxation payable		1,832	131
		99,736	64,520
Net current assets (liabilities)		3,439	(7,632)
		219,949	18,940

	Notes	2003 HK$'000	2002 HK$'000
Capital and reserves			
Share capital	*27*	157,899	13,190
Reserves		(71,865)	(60,012)
		86,034	(46,822)
Minority interests		94	–
Non-current liabilities			
Convertible notes	*30*	64,000	–
Loans from a shareholder	*31*	64,850	64,850
Obligations under finance leases	*23*	887	912
Bank and other borrowings	*24*	3,332	–
Deferred franchise income	*25*	535	–
Deferred taxation	*32*	217	–
		133,821	65,762
		219,949	18,940

Balance Sheet

At 31st March, 2003

	Notes	2003 HK$'000	2002 HK$'000
Non-current asset			
Interests in subsidiaries	14	243,789	26,719
Current assets			
Amounts due from subsidiaries	14	–	2,564
Other receivables		782	423
Bank balances		3,729	1
		4,511	2,988
Current liabilities			
Other payables		1,239	1,880
Amounts due to subsidiaries	14	4,468	–
Loan from and interest payable to a director	21	9,780	8,774
Loans from and interest payable to a shareholder	21	17,318	900
Amount due to a related company	22	–	223
Convertible loan stock	26	6	290
		32,811	12,067
Net current liabilities		(28,300)	(9,079)
		215,489	17,640
Capital and reserves			
Share capital	27	157,899	13,190
Reserves	29	(71,260)	(60,400)
		86,639	(47,210)
Non-current liabilities			
Convertible notes	30	64,000	–
Loans from a shareholder	31	64,850	64,850
		128,850	64,850
		215,489	17,640

Consolidated Cash Flow Statement
For the year ended 31st March, 2003

	2003	2002
	HK$'000	*HK$'000*
Operating activities		
Loss before taxation	(26,615)	(33,682)
Adjustments for:		
Interest income	(47)	(34)
Interest expenses	8,517	5,596
Interest on obligation under finance lease	103	86
Depreciation and amortisation of property, plant and equipment	8,182	11,891
Amortisation of goodwill	7,002	–
Amortisation of trademarks	45	14
Amortisation of issue cost of convertible loan stock	31	443
Release of issue cost on redemption of convertible loan stock	–	2,947
Share of results of associates	(11)	–
Deficit arising on revaluation of investment properties	400	600
Impairment losses recognised respect of property, plant and equipment	3,000	4,747
Loss on disposal of property, plant and equipment	540	172
Operating cash flows before movements in working capital	1,147	(7,220)
(Increase) decrease in inventories	(8,352)	9,360
Decrease in trade and other receivables	8,491	8,401
Decrease in amounts due from associates	1,783	–
Decrease in trade and other payables	(6,274)	(19,403)
Decrease in amount due to a related company	731	223
Increase in deferred franchise income	53	–
Cash used in operation	(2,421)	(8,639)
Hong Kong Profits Tax paid	(2,760)	(13)
PRC Tax paid	–	(383)
Interest paid	(4,478)	(5,596)
Net cash used in operating activities	(9,659)	(14,631)

	Notes	2003 HK$'000	2002 HK$'000
Investing activities			
Acquisition of subsidiaries	*33*	987	–
Interest received		47	34
Proceeds from disposal of property, plant and equipment		252	24
Purchase of property, plant and equipment		(6,127)	(3,777)
Purchase of trademark		(293)	–
Repayment of loan receivables		35	–
Net cash used in investing activities		(5,099)	(3,719)
Financing			
Dividend paid to minority shareholders		(10)	–
Interest on obligations under finance lease contracts		(103)	(86)
Redemption of convertible loan stock		(315)	(30,169)
Principal payments of obligations under finance leases		(679)	(368)
Trust receipt loans raised (repaid)		559	(14,810)
Bank borrowings raised (repaid)		11,175	(653)
Repayment of other loans		–	(3,640)
Loan from a director		–	8,774
Loans from a shareholder		13,900	65,750
Repayment of loans from a shareholder		(900)	–
Contribution from a minority shareholder of a subsidiary		–	235
Proceeds from issue of new shares		5,802	–
Net cash from financing		29,429	25,033
Increase in cash and cash equivalents		14,671	6,683
Cash and cash equivalents brought forward		6,837	154
Cash and cash equivalents carried forward, representing bank balances and cash		21,508	6,837
Analysis of the balances of cash and cash equivalents			
Cash and cash equivalent as previously reported			1,292
Effect of reclassification of trust receipt loans			5,545
Cash and cash equivalent as restated			6,837

Consolidated Statement of Changes in Equity

For the year ended 31st March, 2003

			Other reserves					
	Share capital	**Share premium**	**Special reserve**	**Capital reserve**	**General reserve**	**Total**	**Accumulated losses**	**Total**
	HK$'000	*HK$'000*	*HK$'000* *(note)*	*HK$'000*	*HK$'000* *(note 29)*	*HK$'000*	*HK$'000*	*HK$'000*
THE GROUP								
At 1st April, 2001	13,190	15,393	(27,150)	609	54,589	28,048	(69,901)	(13,270)
Loss for the year	–	–	–	–	–	–	(33,552)	(33,552)
At 31st March, 2002 and 1st April, 2002	13,190	15,393	(27,150)	609	54,589	28,048	(103,453)	(46,822)
Private placement of shares	5,802	–	–	–	–	–	–	5,802
Reduction in share capital	(17,093)	–	–	–	–	–	17,093	–
Issue of new shares for acquisition of subsidiaries	136,000	–	–	–	–	–	–	136,000
Issue of new shares for conversion of convertible notes	20,000	–	–	–	–	–	–	20,000
Loss for the year	–	–	–	–	–	–	(28,946)	(28,946)
At 31st March, 2003	157,899	15,393	(27,150)	609	54,589	28,048	(115,306)	86,034

Note: The special reserve of the Group represents the difference between the nominal value of ordinary shares issued by the Company and the aggregate nominal value of the issued ordinary share capital of the subsidiaries acquired pursuant to a group reorganisation in 1995.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2003

1. GENERAL

The Company was incorporated in Bermuda on 12th August, 1994 under the Companies Act 1981 of Bermuda as an exempted company and its shares were listed on both the London Stock Exchange and The Stock Exchange of Hong Kong Limited ("Stock Exchange"). On 3rd April, 2002, the listing of the Company's shares on the London Stock Exchange was cancelled.

The Company is an investment holding company. The activities of its principal subsidiaries are set out in note 41.

2. ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE

In the current year, the Group has adopted, for the first time, a number of new and revised Statements of Standard Accounting Practice ("SSAP(s)") issued by the Hong Kong Society of Accountants. The adoption of these SSAPs has resulted in a change in the format of presentation of the cash flow statement and inclusion of the statement of changes in equity, but has had no material effect on the results for the current or prior accounting periods. Accordingly, no prior period adjustment has been required. Further details of those new and revised SSAPs are as follows:

Foreign Currencies

The revisions to SSAP 11 "Foreign Currency Translation" have eliminated the choice of translating the income statements of subsidiaries denominated in currencies other than Hong Kong dollars at the closing rate for the period, the policy previously followed by the Group. They are now required to be translated at an average rate. This change in accounting policy has not had any material effect on the results for the current or prior accounting years.

Cash Flow Statements

Under SSAP 15 (Revised) "Cash Flow Statements", cash flows are classified under three headings – operating, investing and financing, rather than the previous five headings. Interest income, interest expenses and dividend paid, which were previously presented under a separate heading, are classified as investing, operating and financing cash flows, as appropriate. Cash flows arising from taxes on income are classified as operating activities, unless they can be separately identified with investing or financing activities. In addition, the amounts presented for cash and cash equivalents have been amended to exclude short term loans that are financing in nature. The re-definition of cash and cash equivalents has resulted in a restatement of the comparative amounts shown in the consolidated cash flow statement.

Employee Benefits

SSAP 34 "Employee Benefits" introduces measurement rules for employee benefits, including retirement benefit plans. The principal effect of the implementation of SSAP 34 is in connection with the recognition of costs for the Group's defined contribution retirement benefit plan. The adoption of this SSAP has not had any material effect on the results for the current period or prior account period.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention as modified for the revaluation of investment properties.

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

Basis of Consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31st March each year.

The results of subsidiaries and associates acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition. Goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet as a separate intangible asset.

Goodwill is amortised on a straight line basis over its useful economic life.

Negative Goodwill

Negative goodwill represents the excess of the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition over the cost of acquisition.

Negative goodwill arising on acquisitions prior to 1st April, 2001 continues to be held in reserves and will be credited to income at the time of disposal of the relevant subsidiary.

Investments in Subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss.

Interests in Associates

The consolidated income statement includes the Group's share of the post-acquisition results of its associates for the year. In the consolidated balance sheet, interests in associates are stated at the Group's share of the net assets of the associates less any identified impairment loss.

Revenue Recognition

Sales of goods are recognised when goods are delivered and title has passed.

Service fee income is recognised when services are provided.

Rental income, including rental invoiced in advance, from properties let under operating leases, is recognised on a straight line basis over the period of the respective leases.

Interest income is accrued on a time basis, by reference to the principal outstanding and the interest rate applicable.

Franchise fee income is recognised on a straight line basis over the franchise period.

Investment Properties

Investment properties are completed properties which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties are stated at their open market value based on independent professional valuations at each balance sheet date. Any surplus or deficit arising on the revaluation of investment properties is credited or charged to the revaluation reserve unless the balance on this reserve is insufficient to cover a deficit, in which case the excess of the deficit over the balance on the revaluation reserve is charged to the income statement.

On disposal of an investment property, the balance on the investment property revaluation reserve attributable to that property disposed of is credited in the income statement.

No depreciation is provided on investment properties except where the unexpired term of the relevant lease is 20 years or less.

Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation and amortisation, and accumulated impairment losses.

The gain or loss arising from disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

Depreciation and amortisation are provided to write off the cost of property, plant and equipment over their estimated useful lives, using the straight line method, at the following rates per annum:

Land held on medium-term leases	2% or the terms of the leases, if shorter
Buildings	2% or the terms of the leases, if shorter
Leasehold improvements	20-33⅓%
Plant and machinery	20%
Furniture and equipment	20-33⅓%
Motor vehicles	20%
Computer system	20-33⅓%

Assets held under finance leases are depreciated over their expected useful lives on the same basis as assets owned by the Group.

Trademarks

Trademarks are stated at cost less accumulated amortisation and accumulated impairment losses. Amortisation is calculated to write off the cost of trademarks over a period of ten years, their estimated useful lives, using the straight line method.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Assets Held under Finance Leases

A lease is classified as a finance lease whenever the term of the lease transfers substantially all the risks and rewards of ownership of the asset concerned to the Group. Assets held under finance leases are capitalised at their fair values at the date of acquisition. The corresponding liability to the lessor, net of interest charges, is included in the balance sheet as a finance lease obligation. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to the income statement over the period of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

All other leases are classified as operating leases and the rental expenses and income are charged and credited respectively to the income statement on a straight line basis over the lease terms.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method.

Convertible Loan Stock

Convertible loan stock are separately disclosed and regarded as liabilities unless conversion actually occurs. The costs incurred in connection with the issue of convertible loan stock are deferred and amortised on a straight line basis over the lives of the convertible loan stock from the date of issue of the loan stock to their final redemption date. If any of the loan stock are purchased and cancelled, redeemed or converted prior to the final redemption date, an appropriate portion of any remaining unamortised costs will be charged immediately to the income statement.

Deferred Franchise Income

Deferred franchise income represents initial franchise fee received which is recognised as income over the franchise period.

Research and Development

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

Taxation

The charge for taxation is based on the results for the year as adjusted for items which are non-assessable or disallowed. Timing differences arise from the recognition for tax purposes of certain items of income and expense in a different accounting period from that in which they are recognised in the financial statements. The tax effect of the resulting timing differences, computed under the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or an asset will crystallise in the foreseeable future.

Foreign Currencies

Transactions in currencies other than Hong Kong dollars are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in such currencies are retranslated at the rates prevailing on the balance sheet date. Profits and losses arising on exchange are included in profit or loss for the year.

On consolidation, the assets and liabilities of the Group's subsidiaries outside Hong Kong are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

Retirement Benefit Scheme

Contributions payable by the Group to its defined contribution retirement benefit scheme are charged to the income statement.

4. TURNOVER

Turnover represents the aggregate of net amounts received and receivable from third parties, less returns and allowances, and is summarised as follows:

	2003	**2002**
	HK$'000	*HK$'000*
Assembly of watches and manufacture of cases	109,298	152,422
Sales of pharmaceutical products	83,340	–
Retail of complete watches and bags	67,148	68,256
Property investments and property holding	38	134
	259,824	220,812

5. LOSS FROM OPERATIONS

	2003	**2002**
	HK$'000	*HK$'000*
Loss from operations has been arrived at after charging:		
Staff costs		
– Directors' remuneration *(note 7)*	1,750	3,004
– Other staff costs	43,873	30,542
– Other staff's retirement benefit scheme contributions	1,731	1,080
	47,354	34,626
Amortisation of goodwill (included in administrative expenses)	7,002	–
Amortisation of trademarks (included in administrative expenses)	45	14
Auditors' remuneration		
– current year	579	397
– under-provision in a prior year	89	–
Depreciation and amortisation		
– assets owned by the Group	8,060	11,617
– assets held under finance leases	122	274
Impairment losses recognised in respect of property, plant and equipment (included in administrative expenses)	3,000	4,747
Loss on disposal of property, plant and equipment	540	172
Deficit on revaluation of investment properties	400	600
Management fee paid to a shareholder	960	560
Research and development expenses	1,000	–
and after crediting:		
Interest income	47	34
Net foreign exchange profits	–	31
Release of deferred franchise income	175	–
Rental income, net of outgoings of HK$28,000 (2002: HK$19,000)	17	115

6. FINANCE COSTS

	2003 *HK$'000*	2002 *HK$'000*
Amortisation of issue cost of convertible loan stock	31	443
Release of issue cost of convertible loan stock on redemption	–	2,947
Interest expense on:		
Bank borrowings		
– wholly repayable within five years	606	1,119
– not wholly repayable within five years	–	24
Convertible notes	2,258	–
Convertible loan stock	4	2,895
Loans from a shareholder	5,028	1,173
Loan from a director	621	385
Obligations under finance leases	103	86
	8,620	5,682
	8,651	9,072

7. DIRECTORS' REMUNERATION

	2003 *HK$'000*	2002 *HK$'000*
Directors' fees:		
Executive	–	–
Non-executive	–	54
Independent non-executive	420	310
Other emoluments:		
Executive directors:		
Salaries and other benefits	1,300	2,563
Retirement benefit scheme contributions	30	77
Independent non-executive directors	–	–
Total directors' emoluments	1,750	3,004

For the year ended 31st March, 2003, directors' emoluments included the use of rent free accommodation with an estimated rateable value of HK$203,000 (2002: HK$417,000) per annum provided by the Group to one (2002: one) of the directors.

The directors' emoluments were within the following bands:

	2003 Number of directors	**2002 Number of directors**
Nil to HK$1,000,000	6	10
HK$1,000,001 to HK$1,500,000	–	1

During the year, no emoluments were paid by the Group to the five highest paid individuals, including directors, as an inducement to join or upon joining the Group or as compensation for loss of office. In addition, during the year, no directors waived any emoluments.

8. EMPLOYEES' EMOLUMENTS

The five highest paid individuals in the Group included nil (2002: one) director of the Company whose emoluments are set out in note 7 above. The aggregate emoluments of the remaining five (2002: four) individuals were as follows:

	2003 *HK$'000*	2002 *HK$'000*
Salaries and allowances	6,456	5,465
Retirement benefit scheme contributions	198	90
	6,654	5,555

The emoluments of the remaining five (2002: four) highest paid individuals were within the following bands:

	2003 Number of employees	2002 Number of employees
Nil to HK$1,000,000	1	–
HK$1,000,001 to HK$1,500,000	3	3
HK$1,500,001 to HK$2,000,000	1	–
HK$2,000,001 to HK$2,500,000	–	1

9. TAXATION

	2003 *HK$'000*	2002 *HK$'000*
The charge comprises:		
Hong Kong Profits Tax	2,184	15
PRC Income Tax	118	90
	2,302	105

Hong Kong Profits Tax and PRC Income Tax had been provided at the rate of 16% (2002: 16%) and 27% (2002: 27%) respectively, on the estimated assessable profit for the year.

Details of deferred taxation are set out in note 32.

10. BASIC LOSS PER SHARE

The calculation of the basic loss per share is based on the loss for the year of HK$28,946,000 (2002: HK$33,552,000) and on the weighted average number of 10,276,225,398 (2002: 131,899,864) shares in issue during the year.

No diluted loss per share has been presented as the exercise and conversion of the share options, convertible loan stock and convertible notes would reduce the loss per share for both years.

11. INVESTMENT PROPERTIES

	THE GROUP
	HK$'000
VALUATION	
At 1st April, 2002	4,000
Deficit arising on revaluation	(400)
At 31st March, 2003	3,600

The Group's investment properties were held under medium-term leases in Hong Kong and were revalued at 31st March, 2003 by Vigers Hong Kong Limited, a firm of independent professional property valuers, on an open market and existing use basis. The deficit on revaluation has been charged to the income statement.

The Group's investment properties are held for rental under operating leases.

12. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings	Leasehold improve-ments	Plant and machinery	Furniture and equipment	Motor vehicles	Computer system	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
THE GROUP							
COST							
At 1st April, 2002	31,628	22,519	17,788	15,241	3,163	6,569	96,908
Additions	–	1,924	1,460	1,952	1,136	444	6,916
Acquired on acquisition of subsidiaries	7,706	2,657	4,406	11,796	–	2,546	29,111
Disposals	–	(597)	–	(1,873)	(844)	–	(3,314)
At 31st March, 2003	39,334	26,503	23,654	27,116	3,455	9,559	129,621
DEPRECIATION AND AMORTISATION AND IMPAIRMENT LOSSES							
At 1st April, 2002	17,805	20,861	14,208	13,232	2,552	5,706	74,364
Provided for the year	2,019	1,927	1,070	2,012	197	957	8,182
Acquired on acquisition of subsidiaries	994	622	2,628	11,189	–	1,163	16,596
Impairment losses recognised	3,000	–	–	–	–	–	3,000
Disposals	–	(466)	–	(1,381)	(675)	–	(2,522)
At 31st March, 2003	23,818	22,944	17,906	25,052	2,074	7,826	99,620
NET BOOK VALUE							
At 31st March, 2003	15,516	3,559	5,748	2,064	1,381	1,733	30,001
At 31st March, 2002	13,823	1,658	3,580	2,009	611	863	22,544

During the year, the directors of the Company reviewed the carrying value of the Group's leasehold land and buildings in view of the recurring operating loss of the assembly of watches and manufacture of cases business. The value in use of this business is determined with reference to the estimated future cash flows using a discount rate of 6%. Impairment losses of approximately HK$3,000,000 were identified and charged to the consolidated income statement.

The net book value of leasehold land and buildings shown above comprises:

	2003	2002
	HK$'000	*HK$'000*
Medium-term leases:		
In Hong Kong	13,875	7,700
In PRC	1,641	6,123
	15,516	13,823

At 31st March, 2003, the net book value of property, plant and equipment included assets held under finance leases of HK$1,904,000 (2002: HK$1,668,000).

13. GOODWILL

	THE GROUP
	HK$'000
COST	
Arising on acquisition of subsidiaries and balance at 31st March, 2003 *(note 33)*	186,632
AMORTISATION	
Provided for the year and balance at 31st March, 2003	(7,002)
NET BOOK VALUE	
At 31st March, 2003	179,630

The goodwill is amortised, on a straight-line basis, over a period of 20 years.

14. INTERESTS IN SUBSIDIARIES/AMOUNTS DUE FROM (TO) SUBSIDIARIES

	THE COMPANY	
	2003	2002
	HK$'000	*HK$'000*
Unlisted shares, at cost	151,227	151,227
Less: Impairment loss recognised	(134,508)	(124,508)
	16,719	26,719
Amounts due from subsidiaries	227,070	–
	243,789	26,719
Amounts due from subsidiaries	–	2,564
Amounts due to subsidiaries	4,468	–

The amounts due from subsidiaries of HK$227,070,000 are unsecured, interest-free and have no fixed terms of repayment. In the opinion of the directors, the amounts will not be repayable within twelve months from the balance sheet date and are therefore shown as non-current.

Other than as mentioned above, the amounts due from (to) subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

During the year, the directors considered that in the light of the recurring operating losses of certain subsidiaries and unfavourable market conditions, the amounts recoverable from certain subsidiaries should be reduced to their estimated net realisable value with reference to their identifiable net assets. Accordingly, an impairment loss of HK$10,000,000 in respect of the investments in subsidiaries has been recognised and charged to the income statement for the year.

Details of the Company's principal subsidiaries at 31st March, 2003 are set out in note 41.

15. INTERESTS IN ASSOCIATES/AMOUNTS DUE FROM ASSOCIATES

	THE GROUP	
	2003	**2002**
	HK$'000	*HK$'000*
Share of net assets	1,968	–
Amounts due from associates	1,855	–

The amounts due from associates are unsecured, interest-free and are repayable on demand.

Details of the Group's associates at 31st March, 2003 are as follows:

Name of associate	Place of incorporation/ operation	Issued and fully paid share capital	Attributable proportion of nominal value of issued share capital indirectly held by the Company	Principal activity
Creation Sino Limited	Hong Kong	HK$2,500,000	50%	Retailing of Chinese pharmaceutical products
Winning Forever Limited	Hong Kong	HK$2,500,000	50%	Retailing of Chinese pharmaceutical products
Wise Hope Limited	Hong Kong	HK$2	50%	Inactive

16. LOAN RECEIVABLE

	THE GROUP	
	2003	**2002**
	HK$'000	*HK$'000*
Principal	890	–
Interest accruals	47	–
	937	–
Less: Amount due with one year shown under current assets	(129)	–
	808	–

The loan is unsecured, interest-bearing at 5.25% per annum and is repayable before 27th November, 2006 by 59 monthly instalments.

17. TRADEMARKS

	THE GROUP
	HK$'000
COST	
At 1st April, 2002	139
Acquired on acquisition of subsidiaries	235
Addition	293
At 31st March, 2003	667
AMORTISATION	
At 1st April, 2002	111
Acquired on acquisition of subsidiaries	8
Provided for the year	45
At 31st March, 2003	164
NET BOOK VALUE	
At 31st March, 2003	503
At 31st March, 2002	28

18. INVENTORIES

	THE GROUP	
	2003	**2002**
	HK$'000	*HK$'000*
Raw materials and consumables	13,731	6,005
Work-in-progress	8,583	3,987
Finished goods	25,665	17,856
	47,979	27,848

All the inventories, excluding those fully provided for, were carried at cost.

19. TRADE AND OTHER RECEIVABLES

The Group allows an average credit period of 60 days to its trade customers. The following is an aging analysis of trade receivables at the balance sheet date:

	THE GROUP	
	2003	**2002**
	HK$'000	*HK$'000*
0–30 days	13,337	13,068
31–60 days	7,363	3,686
61-120 days	2,915	331
Over 120 days	91	357
	23,706	17,442
Other receivables	7,962	4,725
	31,668	22,167

20. TRADE AND OTHER PAYABLES

The following is an aging analysis of trade payables at the balance sheet date:

	THE GROUP	
	2003	**2002**
	HK$'000	*HK$'000*
0–30 days	7,751	6,524
31–60 days	4,971	2,538
61-120 days	5,827	8,381
Over 120 days	5,790	3,523
	24,339	20,966
Other payables	31,660	27,212
	55,999	48,178

21. LOANS FROM AND INTEREST PAYABLE TO A DIRECTOR/A SHAREHOLDER

The loans are unsecured, interest-bearing at prime rate plus 2% per annum and are repayable on demand.

22. AMOUNT DUE TO A RELATED COMPANY

The amount as at 31st March, 2002 represented the balance with Wang On Group Limited ("Wang On"), a substantial shareholder of the Company. The amount was unsecured, non-interest bearing and was fully repaid during the year.

23. OBLIGATIONS UNDER FINANCE LEASES

	Minimum lease payments		Present value of minimum lease payments	
	2003	**2002**	**2003**	**2002**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
THE GROUP				
Amounts payable under finance leases:				
Within one year	681	571	614	479
In the second to fifth year inclusive	940	990	887	912
	1,621	1,561	1,501	1,391
Less: future finance charges	(120)	(170)	–	–
Present value of lease obligations	1,501	1,391	1,501	1,391
Less: Amount due within one year shown under current liabilities			(614)	(479)
Amount due after one year			887	912

It is the Group's policy to lease certain of its plant and machinery under finance leases. The average lease period is 3 years. For the year ended 31st March, 2003, the average effective borrowing rate was 8%. Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

The Group's obligations under finance leases are secured by the lessor's charge over the leased assets.

24. BANK AND OTHER BORROWINGS

	THE GROUP	
	2003	**2002**
	HK$'000	*HK$'000*
Bank borrowings – unsecured	11,175	–
Trust receipt loans – secured	6,104	5,545
	17,279	5,545
The maturity of the above borrowings is as follows:		
On demand or within one year	13,947	5,545
More than one year, but not exceeding two years	1,668	–
More than two years, but not exceeding five years	1,664	–
	17,279	5,545
Less: Amount due within one year shown under current liabilities	(13,947)	(5,545)
Amount due after one year	3,332	–

25. DEFERRED FRANCHISE INCOME

	2003	**2002**
	HK$'000	*HK$'000*
Acquired on acquisition of subsidiaries	722	–
Additions	228	–
Less: Recognised in the current year	(175)	–
Unamortised deferred franchise income carried forward	775	–
Less: Amount due within one year shown under current liabilities	(240)	–
	535	–

26. CONVERTIBLE LOAN STOCK

	THE GROUP AND THE COMPANY	
	2003	**2002**
	HK$'000	*HK$'000*
£590 (2002: £29,006) 9.5% convertible unsecured loan stock 2008 ("CL Stock")	6	321
Less: Issue cost	6,032	6,032
Accumulated release on redemption	(4,348)	(4,348)
Accumulated release on conversion	(13)	(13)
Accumulated amortisation of issue cost	(1,671)	(1,640)
	–	31
	6	290

On 12th January, 1999, the Company issued CL Stock with a nominal value of £3,807,552 divided into 3,807,552 stock units. The CL Stock bear interest at the rate of 9.5% per annum, payable every half year on 31st March and 30th September of each year, and are redeemable at par on 30th September, 2008 or, if later, the date falling 30 days after the final conversion date in respect of the year 2008.

Holders of the CL Stock are entitled to convert their units biannually at any time within 30 calendar days after the despatch of the interim report or final report of the Company up to and including 29th September, 2008 on the following bases, subject to adjustment:

(a) in respect of any conversion in any of the years 1999 to 2001 (both years inclusive), 25 ordinary shares for every stock unit (i.e. a theoretical conversion price of HK$0.50 for each ordinary share (taking an exchange rate of £1 = HK$12.5)); or

(b) in respect of any conversion in any of the years 2003 to 2008 (both years inclusive), 14.286 ordinary shares for every stock unit (i.e. a theoretical conversion price of HK$0.87 for each ordinary share (taking an exchange rate of £1 = HK$12.5)).

During the year ended 31st March, 2002, the Company repaid £2,727,810 CL Stock and the balance of CL Stock outstanding at 31st March, 2002 amounted to HK$321,000 (£29,006) which had been classified as a current liability.

During the year ended 31st March, 2003, the Company repaid £28,416 CL Stock and the balance of CL Stock outstanding at 31st March, 2003 amounted to HK$6,000 (£590) which has been classified as a current liability.

27. SHARE CAPITAL

	Number of shares	Amount
		HK$'000
Authorised:		
Ordinary shares of HK$0.10 each at 1st April, 2001 and 31st March, 2002	800,000,000	80,000
Reduction in share capital *(note ii (a))*	–	(72,000)
Cancellation during the year *(note ii (b))*	(610,080,136)	(6,101)
Increase during the year *(note ii (c))*	7,810,080,136	78,101
	8,000,000,000	80,000
Increase during the year *(note iii)*	52,000,000,000	520,000
Ordinary shares of HK$0.01 each at 31st March, 2003	60,000,000,000	600,000
Issued and fully paid:		
Ordinary shares of HK$0.10 each at 1st April, 2001 and 31st March, 2002	131,899,864	13,190
Issue of shares by private placements *(note i)*	58,020,000	5,802
Reduction in share capital *(note ii (a))*	–	(17,093)
Issue of 13,600,000,000 shares to acquire subsidiaries *(note iv)*	13,600,000,000	136,000
Issue upon conversion of convertible notes *(note v)*	2,000,000,000	20,000
At 31st March, 2003	15,789,919,864	157,899

Notes:

(i) During the year, the Company issued and allotted 26,370,000 and 31,650,000 ordinary shares of HK$0.10 each at HK$0.10 per share as a result of private placements of shares to institutional investors.

(ii) Pursuant to resolutions passed at a special general meeting held on 17th May, 2002, a reduction of the Company's share capital was approved as follows:

(a) the nominal value of each issued ordinary share of the Company was reduced from HK$0.10 per share to HK$0.01 per share by the cancellation of HK$0.09 of the capital paid up thereon;

(b) all of the authorised but unissued share capital of the Company was cancelled;

(c) thereafter the authorised share capital of the Company was increased to the original authorised share capital of HK$80,000,000 by the creation of 7,810,080,136 new ordinary shares of HK$0.01 each; and

(d) the amount of the paid up capital of the issued shares so cancelled was credited to accumulated losses account.

(iii) Pursuant to resolution passed at a special general meeting held on 3rd July, 2002, the authorised share capital of the Company was increased from HK$80,000,000 to HK$600,000,000 by the creation of an additional 52,000,000,000 new ordinary shares of HK$0.01 each.

(iv) Details of the acquisition are set out in note 33.

(v) The Company further issued and allotted a total of 2,000,000,000 ordinary shares of HK$0.01 each upon the exercise of the conversion rights by the holders of the convertible notes.

28. SHARE OPTIONS

Pursuant to the share option scheme approved and adopted by the Company on 16th October, 1997 (the "1997 Scheme") for the purpose of providing incentives to directors and eligible employees, which will expire on 16th October, 2007, the Board of Directors of the Company may, at their discretion, grant options to directors or employees of the Company or any of its subsidiaries to subscribe for shares in the Company in accordance with the terms of the 1997 Scheme.

Options may be granted at a nominal consideration and will entitle the holder thereof to subscribe for shares during a period of ten years from the date the option is granted and accepted or from a later date as determined by the Board at a price (subject to adjustments as provided therein) equal to the higher of the nominal value of the shares and 80% of the average of the closing prices of the shares on the Stock Exchange on the five trading days immediately preceding the date of the grant of the options.

The maximum number of shares in respect of which options may be granted under the 1997 Scheme shall not exceed 10% of the share capital of the Company in issue from time to time (except shares issued pursuant to the 1997 Scheme) and the maximum number of shares in respect of which options may be granted to any one employee shall not exceed 25% of the maximum number of shares in respect of which options may be granted under the 1997 Scheme.

The following table details movements in the Company's share options during the year:

				Number of shares subject to options		
	Date of grant	Exercisable period	Exercise price per share *HK$*	Outstanding at 1.4.2001	Reclassification *(note 2)*	Outstanding at 31.3.2002 and 31.3.2003
Category 1: Former directors						
Tsang Pui Sing, Aloysius *(note 1)*	9.12.1999	9.12.1999 – 8.12.2009	0.285	1,200,000	(1,200,000)	–
	3.3.2000	3.3.2000 – 2.3.2010	0.820	1,000,000	(1,000,000)	–
Leong Weng Kin *(note 1)*	9.12.1999	9.12.1999 – 8.12.2009	0.285	1,100,000	(1,100,000)	–
	3.3.2000	3.3.2000 – 2.3.2010	0.820	1,000,000	(1,000,000)	–
				4,300,000	(4,300,000)	–
Category 2:						
Employees	9.12.1999	9.12.1999 – 8.12.2009	0.285	1,680,000	2,300,000	3,980,000
	3.3.2000	3.3.2000 – 2.3.2010	0.820	–	2,000,000	2,000,000
				1,680,000	4,300,000	5,980,000
Total all categories				5,980,000	–	5,980,000

No share options were granted or exercised during the year.

Notes:

1. Mr. Tsang Pui Sing, Aloysius, and Mr. Leong Weng Kin resigned as directors of the Company on 28th August, 2001.

2. During the year ended 31st March, 2002, the share options granted to the Company's former directors after their resignation were reclassified as share options granted to the employees.

29. RESERVES

	Share premium *HK$'000*	Contributed surplus *HK$'000*	General reserve *HK$'000*	Accumulated losses *HK$'000*	Total *HK$'000*
THE COMPANY					
At 1st April, 2001	15,393	18,494	54,589	(116,037)	(27,561)
Loss for the year	–	–	–	(32,839)	(32,839)
At 1st April, 2002	15,393	18,494	54,589	(148,876)	(60,400)
Credit arising from reduction in share capital	–	–	–	17,093	17,093
Loss for the year	–	–	–	(27,953)	(27,953)
At 31st March, 2003	15,393	18,494	54,589	(159,736)	(71,260)

The general reserve represented the amount arising from reduction of par value of the Company's ordinary shares during the year ended 31st March, 1999.

The Company did not have any distributable reserve at the balance sheet dates.

30. CONVERTIBLE NOTES

	THE GROUP AND THE COMPANY *HK$'000*
Issued during the year	84,000
Converted during the year	(20,000)
Balance at 31st March, 2003	64,000

On 9th July, 2002, the Company issued convertible notes of HK$84 million to satisfy partial consideration for the acquisition of approximately 99.79% interest in WYT. The convertible notes carry interest at 3.8% per annum and are redeemable on 8th July, 2005 unless it was previously converted or redeemed. The holders of the convertible notes have the option to convert the convertible notes into ordinary shares of the Company of HK$0.01 each at any time during the period from 9th July, 2002 to 8th July, 2005.

During the year, the Company issued and allotted 2,000,000,000 ordinary shares of HK$0.01 each upon the exercise of the conversion rights by the holders of the convertible notes.

At 31st March. 2003, all the convertible notes were held by Rich Time Strategy Limited, a substantial shareholder of the Company.

31. LOANS FROM A SHAREHOLDER

The amounts are unsecured, interest-bearing at prime rate plus 2% per annum and are repayable in one lump sum in July 2005.

32. DEFERRED TAXATION

The Group

At 31st March, 2003, the Group had recognised a deferred tax liability of approximately HK$217,000 representing the tax effect of the timing difference between tax allowance and accounting depreciation as a result of the acquisition of subsidiaries.

At 31st March, 2003, the Group had an unrecognised deferred tax asset mainly representing the tax effect of timing differences arising as a result of estimated tax losses of approximately HK$43 million (2002: HK$53 million) available to set off against future assessable profits. The deferred tax asset has not been recognised in the financial statements as it is not certain that the benefit will be realised in the foreseeable future.

The Company

The Company had no material unprovided deferred taxation arising during the year or at the balance sheet date.

33. ACQUISITION OF SUBSIDIARIES

On 9th July, 2002, the Group acquired approximately 99.79% interest in WYT at an aggregate consideration of HK$220 million which was satisfied by the issue of 13,600,000,000 ordinary shares of the Company at HK$0.01 per share and the issue of convertible notes of HK$84 million.

	2003	**2002**
	HK$'000	*HK$'000*
Net assets acquired:		
Property, plant and equipment	12,515	–
Interests in associates	2,333	–
Amounts due from associates	3,262	–
Loan receivable	972	–
Trademarks	227	–
Inventories	11,779	–
Trade and other receivables	17,992	–
Amount due from a related company	954	–
Bank and cash balances	3,303	–
Trade and other payables	(14,480)	–
Taxation payable	(2,159)	–
Deferred franchise income	(722)	–
Deferred taxation	(217)	–
Minority interests	(75)	–
Net assets	35,684	–
Goodwill	186,632	–
	222,316	–

	2003	2002
	HK$'000	*HK$'000*
Satisfied by:		
Issue of ordinary shares *(note)*	136,000	–
Issue of convertible notes	84,000	–
Expenses paid in cash	2,316	–
	222,316	–
Analysis of net inflow of cash and cash equivalents in connection with the purchase of subsidiaries:		
Total cash consideration paid for legal and professional charges	(2,316)	–
Bank balances and cash acquired	3,303	–
	987	–

The subsidiaries acquired during the year contributed HK$83,340,000 to the group's turnover and a profit of HK$15,469,000 to the Group's operating results.

Note: The shares were issued at HK$0.01 per share which represents a discount of approximately 76% to the closing price of HK$0.042 per share as quoted on the Stock Exchange on 9th July, 2002, being the trading date immediately before the completion of the acquisition of the WYT. In the opinion of the directors, the market price of HK$0.042 per share does not reflect the fair value of WYT because of the fluctuation of the Company's share price due to market volatility. The directors have therefore arrived at the fair value of WYT with reference to a valuation performed by Vigers Hong Kong Limited, an independent firm of professional valuers, on a fair market value basis. Based on this valuation, the fair value of WYT at the time of acquisition by the Company was HK$220 million and the fair value of the Company's shares issued for the acquisition was HK$0.01 per share.

Had the market price of HK$0.042 been used, the value of the consideration for the acquisition of the WYT would have been increased by HK$435.2 million.

34. MAJOR NON-CASH TRANSACTIONS

During the year ended 31st March, 2003, the major non-cash transactions are as follows:

(a) The Group acquired approximately 99.79% interest in WYT at an aggregate consideration of HK$220 million which was satisfied by the issue of ordinary shares and convertible notes of HK$136 million and HK$84 million respectively.

(b) The Company issued and allotted 2,000,000,000 ordinary shares of HK$0.01 each upon the exercise of the conversion rights by the holders of the convertible notes.

(c) The Group entered into finance lease arrangements in respect of assets with a total capital value at the inception of lease contracts of HK$789,000.

During the year ended 31st March, 2002, the Group entered into finance lease arrangements in respect of assets with a total capital value at the inception of lease contracts of HK$1,432,000.

35. RETIREMENT BENEFIT SCHEMES

The Group participates in both a defined contribution scheme which is registered under the Occupational Retirement Scheme Ordinance (the "ORSO Scheme") and a Mandatory Provident Fund Scheme (the "MPF Scheme") established under the Mandatory Provident Fund Ordinance in December 2000. The assets of the schemes are held separately from those of the Group, in funds under the control of trustees. Employees who were members of the ORSO Scheme prior to the establishment of the MPF Scheme were offered a choice of staying within the ORSO Scheme or switching to the MPF Scheme, whereas all new employees joining the Group on or after December 2000 are required to join the MPF Scheme.

The employees of the Group's subsidiaries in the PRC are members of state-managed retirement benefits schemes operated by the government. The subsidiaries are required to contribute a specified percentage of their payroll costs to the retirement benefits schemes. The only obligation of the Group with respect to the retirement benefits schemes is to make the specified contributions.

The total cost charged to the income statement of approximately HK$1,731,000 (2002: HK$1,080,000) represents contributions payable to the schemes by the Group at rates specified in the rules of the schemes.

At the balance sheet date, there was no significant forfeited contributions, which arose upon employees leaving the retirement benefit scheme, available to reduce the contribution payable in the future years.

36. PLEDGE OF ASSETS

At 31st March, 2003, the Group had pledged its leasehold land and buildings and investment properties with an aggregate net book value of approximately HK$10,882,000 (2002: HK$11,700,000) to a bank to secure general banking facilities granted to the Group.

37. CAPITAL COMMITMENTS

At 31st March, 2003, the Group had capital commitment of HK$377,000 in respect of acquisition of property, plant and equipment contracted for but not provided in the financial statements.

At 31st March, 2003, the Company had no significant capital commitments.

38. CONTINGENT LIABILITIES

	THE GROUP		THE COMPANY	
	2003	**2002**	**2003**	**2002**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Bills discounted with recourse	1,370	905	–	–
Guarantees given to bankers in respect of banking facilities granted to				
– subsidiaries	–	–	7,500	8,000
– a third party	1,489	–	–	–
	1,489	–	7,500	8,000
			(note)	*(note)*

Note: The Company has given a corporate guarantee to a bank in respect of banking facilities granted to its subsidiaries. The extent of banking facilities utilised by the subsidiaries as at 31st March, 2003 amounted to approximately HK$5.0 million (2002: HK$5.5 million).

39. OPERATING LEASE ARRANGEMENTS

The Group as lessee:

	2003	2002
	HK$'000	*HK$'000*
Operating lease payment in respect of land and buildings	3,963	566

At the balance sheet date, the Group had outstanding commitments under non-cancellable operating leases, which fall due as follows:

	2003	2002
	HK$'000	*HK$'000*
Within one year	8,935	502
In the second to fifth year inclusive	9,970	142
	18,905	644

Operating lease payments represent rentals payable by the Group for certain of its office properties and retail shops. Leases are negotiated for a term ranging from 1 to 3 years. Certain lease rentals are based on turnover of the relevant retail shops.

The Group as lessor:

Property rental income earned during the year was HK$45,000 (2002: HK$134,000). The properties held have committed tenants for the next three years.

At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments:

	2003	2002
	HK$'000	*HK$'000*
Within one year	72	202
In the second to fifth year inclusive	144	151
	216	353

At the balance sheet date, the Company did not have any operating lease arrangement.

40. RELATED PARTY TRANSACTION AND BALANCES

During the year, the Group had the following connected transactions:

Name of related party	Transactions	2003 *HK$'000*	2002 *HK$'000*
Wang On Group Limited and its subsidiaries (the "Wang On Group")	Interest on term loans paid by the Group *(note iii)*	5,028	1,173
	Interest on convertible notes paid by the Group *(note iv)*	1,865	–
	Management fee paid by the Group *(note v)*	960	560
Town Health International Holdings Company Limited and its subsidiaries (the "Town Health Group") *(note i)*	Interest on convertible notes paid by the Group *(note iv)*	393	–
	Sales of pharmaceutical products by the Group *(note vi)*	1,750	–
	Management fee received by the Group *(note vi)*	85	–
	Advertising and promotion fee received by the Group *(note vi)*	57	–
Leung Wai Ho *(note ii)*	Interest on terms loans paid by the Group *(note iii)*	621	385

Notes:

(i) Town Health International Holdings Company Limited is a substantial shareholder of the Company.

(ii) Leung Wai Ho is a director of the Company.

(iii) Interest is calculated at 2% above prime rate per annum.

(iv) Interest is calculated at 3.8% per annum.

(v) Management fee is mutually agreed and determined by the relevant parties.

(vi) These transactions were entered with the Town Health Group in accordance with the relevant franchise agreement.

In addition, the Group acquired approximately 99.79% interest in WYT from the Wang On Group and the Town Health Group, respectively, at an aggregate consideration of HK$220 million. WYT is a company incorporated in Hong Kong with limited liability and is principally engaged in the business of manufacturing, processing and retailing of traditional Chinese medicine. Further details of the transaction are set out in a circular of the Company dated 17th June, 2002. The acquisition was approved by shareholders in a special general meeting held on 3rd July, 2002 and was completed in July 2002.

Details of the balances with related parties as at the balance sheet date are set out in the balance sheets and notes 15, 21, 22, 30 and 31 respectively.

41. PRINCIPAL SUBSIDIARIES

Particulars of the principal subsidiaries at 31st March, 2003 are as follows:

Name of subsidiary	Place of incorporation/ operation	Nominal value of issued and paid up share capital	Proportion of issued share capital held by the Company		Principal activity
			Directly	Indirectly	
Always Prosperous Limited	Hong Kong	HK$500,000	–	100%	Property investment
Billion Good Investment Limited	Hong Kong	HK$2	–	100%	Property holding
Dailywin Watch Products Mfg. Limited ("Dailywin Watch")	Hong Kong	HK$1,000 ordinary HK$2,500,000 non-voting deferred *(note i)*	– –	– 100%	Manufacture of watch cases, assembly of watches and trading in watches
Dongguan Dailywin Watch Company Limited ("Dongguan Dailywin")	PRC	HK$55,800,000 registered capital *(note ii)*	–	95%	Manufacture of watch cases, assembly of watches and trading in watches
Great Prime International Holdings Limited	British Virgin Islands	US$25,001	100%	–	Investment holding
Tensfine Investments Limited	Hong Kong	HK$10,000	–	100%	Property holding
Wai Yuen Tong Medicine Company Limited	Hong Kong	HK$217,374 ordinary HK$17,373,750 nonvoting deferred *(note iii)*	–	99.79%	Manufacture and trading of Chinese pharmaceutical products
東莞市時尚風采貿易有限公司 ("Trendi Image")	PRC	RMB5,500,000 registered capital	–	*note iv*	Trading in watches

Notes:

(i) The deferred shares in Dailywin Watch, which are not held by the Group, practically carry no rights to dividends or to receive notice of or to attend or vote at any general meeting of the company or to participate in any distribution on winding up. The Group has been granted an option by the holders of the deferred shares to acquire these shares at a nominal amount.

(ii) Dongguan Dailywin is a joint venture limited liability company established in the PRC for a term of 15 years starting 15th January, 1992, subject to extension. The registered capital of Dongguan Dailywin is owned as to 95% by the Group and 5% by an independent PRC third party.

(iii) The non-voting deferred shares carry no voting rights or rights to dividends. On the winding-up of the company, the non-voting deferred shares have a right to repayment in proportion to the amounts paid up on all ordinary and deferred shares after the first HK$1,000,000,000,000 thereof has been distributed among the holders of the ordinary shares.

(iv) Trendi Image is a private limited liability company established in the PRC. The registered capital of Trendi Image is owned as to 48% by Mr. Chen Wei Lik 陳偉力 and 47% Mr. Chen Fu Yiu 陳富堯 and 5% by an independent third party. Pursuant to various deeds entered into between Mr. Chen Wei Lik 陳偉力, Mr. Chen Fu Yiu 陳富堯 and D & S Concepts (HK) Limited ("D&S"), a wholly owned subsidiary of the Company, Mr. Chen Wei Lik 陳偉力 and Mr. Chen Fu Yiu 陳富堯 has each agreed, inter alia, (a) to assign to D&S all past, present and future benefits received by them as owners of the registered capital of Trendi Image; (b) to vote at board meetings, general meetings or otherwise of Trendi Image in accordance with instructions of D&S; and (c) not to dispose of his interest in Trendi Image unless authorised by D&S. In return, D&S has agreed to (a) provide all funding and financing for Trendi Image as and when requested by Mr. Chen Wei Lik 陳偉力 and Mr. Chen Fu Yiu 陳富堯; and (b) indemnify Mr. Chen Wei Lik 陳偉力 and Mr. Chen Fu Yiu 陳富堯 for any costs, expenses or losses incurred by them by reason of their carrying on Trendi Image's business. By virtue of these deeds, Mr. Chen Wei Lik 陳偉力 and Mr. Chen Fu Yiu 陳富堯 have effectively transferred their entire economic interests in Trendi Image to D&S.

On the basis of the various deeds mentioned above, the directors are of the opinion that the Group has effective control over Trendi Image and accordingly has accounted for Trendi Image as a subsidiary.

42. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

For management purposes, the Group is currently organised into four operating divisions. These divisions are the basis on which the Group reports its primary segment information.

An analysis of the Group's turnover and operating results and segment assets and liabilities by business segments is as follows:

For the year ended 31st March, 2003

	Assembly of watches and manufacture of cases	Retail of complete watches and bags	Property investments and property holding	Sales of phar-maceutical products	Elimination	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
By principal activity						
TURNOVER						
External sale	109,298	67,148	38	83,340	–	259,824
Inter segment sales*	26,862	14,764	216	–	(41,842)	–
	136,160	81,912	254	83,340	(41,842)	259,824
SEGMENT RESULTS	(4,797)	(7,345)	(734)	15,469	–	2,593
Amortisation of goodwill relating to pharmaceutical business						(7,002)
Central administrative expenses						(13,566)
Finance costs						(8,651)
Share of results of associates						11
Loss before taxation						(26,615)
Taxation						(2,302)
Loss before minority interests						(28,917)
Minority interests						(29)
Loss for the year						(28,946)

* Inter-segment sales are charged at terms determined and agreed between group companies.

	Assembly of watches and manufacture of cases	Retail of complete watches and bags	Property investments and property holding	Sales of phar-maceutical products	Elimination	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
ASSETS AND LIABILITIES AT 31ST MARCH, 2003						
ASSETS						
Segmental assets	29,131	30,782	6,208	67,208	–	133,329
Interests in associates				1,968	–	1,968
Goodwill				179,630	–	179,630
Unallocated corporate assets						4,758
						319,685
LIABILITIES						
Segmental liabilities	32,001	19,643	114	24,540	–	76,298
Unallocated corporate liabilities						157,353
						233,651
OTHER INFORMATION FOR THE YEAR ENDED 31ST MARCH, 2003						
Amortisation of trademarks	14	–	–	31	–	45
Capital expenditure	1,534	3,264	–	2,411	–	7,209
Depreciation and amortisation of property, plant and equipment	3,732	2,546	204	1,700	–	8,182
Deficit on revaluation of investment properties	–	–	400	–	–	400
Goodwill arising on acquisition of subsidiaries	–	–	–	186,632	–	186,632
Impairment losses recognised	3,000	–	–	–	–	3,000

For the year ended 31st March, 2002

	Assembly of watches and manufacture of cases	Retail of complete watches and bags	Property investments and property holding	Elimination	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
By principal activity					
TURNOVER					
External sales	152,422	68,256	134	–	220,812
Inter segment sales*	28,501	25,147	216	(53,864)	–
	180,923	93,403	350	(53,864)	220,812
SEGMENT RESULTS	(1,323)	(13,698)	(2,724)	–	(17,745)
Central administrative expenses					(6,865)
Finance costs					(9,072)
Loss before taxation					(33,682)
Taxation					(105)
Loss before minority interests					(33,787)
Minority interests					235
Loss for the year					(33,552)

* Inter-segment sales are charged at terms determined and agreed between group companies.

ASSETS AND LIABILITIES AT 31ST MARCH, 2002					
ASSETS					
Segmental assets	42,978	33,255	6,803	–	83,036
Unallocated corporate assets					424
					83,460
LIABILITIES					
Segmental liabilities	34,562	18,690	113	–	53,365
Unallocated corporate liabilities					76,917
					130,282
OTHER INFORMATION FOR THE YEAR ENDED 31ST MARCH, 2002					
Amortisation of trademarks	14	–	–	–	14
Capital expenditure	3,267	1,907	35	–	5,209
Depreciation and amortisation of property, plant and equipment	4,773	6,930	202	–	11,905
Deficit on revaluation of investment properties	–	–	600	–	600
Impairment losses recognised	2,645	–	2,102	–	4,747

Geographical segments

The Group's operations are mainly located in United States of America and the PRC, other than Hong Kong.

The following provides an analysis of the Group's turnover by geographical market, irrespective of the origin of the goods/services:

	2003	2002
	HK$'000	*HK$'000*
United States of America	69,253	115,470
The PRC, other than Hong Kong	75,168	70,756
Hong Kong	82,443	9,151
Others	32,960	25,435
	259,824	220,812

The following is an analysis of the carrying amount of segment assets, and additions to property, plant and equipment, by the geographical area in which the assets are located:

	Carrying amount of segment assets		Additions to property, plant and equipment, goodwill and trademarks	
	2003	**2002**	**2003**	**2002**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
United States of America	1,897	5,643	–	–
The PRC, other than Hong Kong	44,919	56,148	3,884	4,196
Hong Kong	272,356	18,119	190,184	1,013
Others	477	3,514	–	–
	319,649	83,424	194,068	5,209

The following is the text of a letter, summary of values and valuation certificate received from Vigers Appraisal and Consulting Limited, an independent valuer, in connection with their valuation as at 8 April, 2004 of WYT Building for the purpose of inclusion in this circular:

VIGERS 威格斯

16th April 2004

The board of directors
Wai Yuen Tong Medicine Holdings Limited
5th Floor, Wai Yuen Tong Medicine Building
No. 9 Wang Kwong Road
Kowloon Bay
Kowloon

Dear Sirs

In accordance with your instruction for us to value the captioned property as at 8th April 2004 for your reference purposes, we confirm that we have carried out external inspection of the property, made relevant enquiries and obtained such information as we consider necessary for the purpose of providing you with our opinion of the value of the property.

Our valuation represents our opinion of the open market value. We define open market value as – "an opinion of the best price at which the sale of an interest in the property would have been completed unconditionally for cash consideration on the date of valuation, assuming:–

(a) a willing seller;

(b) that, prior to the date of valuation, there had been a reasonable period (having regard to the nature of the property and the state of the market) for the proper marketing of the interest, for the agreement of price and terms and for the completion of the sale;

(c) that the state of the market, level of values and other circumstances were, on any earlier assumed date of exchange of contracts, the same as on the date of valuation;

(d) that no account is taken of any additional bid by a prospective purchaser with a special interest; and

(e) that both parties to the transaction had acted knowledgeably, prudently and without compulsion."

Our valuation have been made on the assumption that the owners sold the property on the open market without the benefit of a deferred terms contract, leaseback, joint venture, management agreement or any similar arrangement which would serve to increase the value of the property.

We have relied to a considerable extent on information provided to us by you and have accepted advice given to us by you on such matters as planning approvals or statutory notices, easements, occupation, letting, tenure, floor areas and all other relevant matters. We have caused searches to be made at the appropriate Land Registry in Hong Kong. We have not, however, searched the original documents to verify ownership or to verify any lease amendments which do not appear on the copies handed to us. All documents have been used for reference only. Dimensions, measurements and areas are only approximations.

We have inspected the exterior of the property. However, we have not carried out a structural survey nor have we inspected woodwork or other parts of the structures which are covered, unexposed or inaccessible and we are therefore unable to report that any such parts or of the property is free from defect.

We have not arranged for any investigation to be carried out to determine whether or not high alumina cement concrete or calcium chloride additive or pulverized fly ash, or any other deleterious material have been used in the construction of the property. We are therefore unable to report that the property is free from risk in this respect. For the purpose of this valuation, we have assumed that deleterious materials have not been used in the property.

No allowance has been made in our valuation for any charges, mortgages or amounts owing on the property nor for any expenses or taxation which might be incurred in effecting a sale. Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions and outgoings of an onerous nature which could affect its value.

The valuation certificate is confidential to the client for the specific purpose of which they refers. It may be disclosed to other professional advisors assisting the client in respect of that purpose, but the client shall not disclose the valuation certificates to any other person.

In accordance with our standard practice, this valuation certificates are for the use of the party to whom it is addressed and no responsibility is accepted to any third party for the whole or any part of the contents of the valuation certificate.

We enclose herewith our valuation certificate.

Yours faithfully
For and on behalf of
VIGERS APPRAISAL & CONSULTING LIMITED

Gilbert K M Yuen MHKIS MRICS
Director

VALUATION CERTIFICATE

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 8th April 2004
1.	Ground Floor, Upper Ground Floor, 1st, 2nd, 3rd, 4th and 5th Floors, and Roof of No. 9 Wang Kwong Road, Kowloon Bay, Kowloon 10,500/29,724th parts or shares of and in New Kowloon Inland Lot No. 5864	The property comprises a 6-storey industrial building completed in about 1985. Parking and loading/unloading spaces are provided on the Ground Floor and First Floor. The property has a total gross floor area of approximately 113,022 sq.ft. (10,500 sq.m.). In addition, 14 van/car parking spaces, 7 lorry parking spaces and 1 container/lorry parking spaces are provided within the property. The property is held under Conditions of Sale No. 11517 for a term of 99 years commencing from 1st July 1898 and had been extended to 30th June 2047 without premium. The current annual Government Rent payable for the property is 3% of the rateable value for the time being of the property.	As at 8th April 2004, the property was owner-occupied.	HK$85,000,000

Notes:

1. The registered owner of the property was WOD Investments Limited.

2. The property was subject to a Mortgage in favour of The Hongkong and Shanghai Banking Corporation Limited.

3. Memorandum of Change of name of Building vide Memorial No. 8895108 dated 18th March 2003.

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

2. DISCLOSURE OF DIRECTORS' INTERESTS

As at the Latest Practicable Date, the interests and short positions of each Director or chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporation(s) (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange, were as follows:

Interests in shares

Name of Director	Capacity in which such interests are held	Number of shares of the Company *(Note 1)*	Approximate % of the issued share capital
Mr. Tang Ching Ho	Corporate *(Note 2)*	2,247,227(L)	1.54%
("Mr. Tang")	Personal	1,268,355(L)	0.87%
	Family *(Note 3)*	1,268,354(L)	0.87%
	Other *(Note 4)*	25,563,463(L)	17.52%
Ms. Yau Yuk Yin	Personal	1,268,354(L)	0.87%
("Ms. Yau")	Family *(Note 5)*	29,079,045(L)	19.92%

Notes:

1. The letter " L" denotes a long position in shares.

2. Mr. Tang was interested in these shares through Caister Limited, a company which is wholly and beneficially owned by him.

3. Mr. Tang was taken to be interested under the SFO in those shares in which his spouse, Ms. Yau, was interested.

4. Agreements (the "Agreements") were entered into between Middlemore Limited, a company wholly and beneficially owned by Mr. Tang, and (i) Ms. Tang Mui Fong; (ii) Ms. Tang Mui Fun and (iii) Mr. Yau Yuk Tong, all being the relatives of Mr. Tang, as a result of which, and for the purpose of sections 317(1)(a) and 318 of the SFO, Mr. Tang was taken to be interested in the shares owned by them.

5. Ms. Yau was taken to be interested under the SFO in those shares in which her spouse, Mr. Tang, was interested.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or chief executive of the Company had any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interests and short positions which he was taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listing Companies in the Listing Rules, to be notified to the Company and the Stock Exchange.

3. PERSONS WHO HAVE AN INTEREST OR SHORT POSITION WHICH IS DISCLOSEABLE UNDER DIVISIONS 2 AND 3 OF PART XV OF THE SFO AND SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, so far as is known to any Director or chief executive of the Company, the following persons (not being a Director or chief executive of the Company) had, or were deemed or taken to have interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or, who were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group or had any option in respect of such capital:

Name of shareholder	**Number of shares of the Company** *(Note 1)*	**Approximate % of the issued share capital**
Caister Limited	30,347,399 (L) *(Note 2)*	20.79%
Ms. Tang Mui Fong	30,347,399 (L) *(Note 2)*	20.79%
Mr. Yau Yuk Tong	30,347,399 (L) *(Note 2)*	20.79%
Ms. Tang Mui Fun	30,347,399 (L) (Note 2)	20.79%
Ms. Chan Yuk Kuen ("Ms. Chan")	30,347,399 (L) *(Note 3)*	20.79%

Notes:

1. The letter "L" denotes a long position in shares.

2. Pursuant to the Agreements, Caister Limited, Ms. Tang Mui Fong, Mr. Yau Yuk Tong and Ms. Tang Mui Fun were taken to be interested in the 30,347,399 shares for the purpose of sections 317(1)(a) and 318 of the SFO.

3. Ms. Chan was taken to be interested under the SFO in those shares in which her spouse, Mr. Yau Yuk Tong was interested.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors knows of any person (not being a Director or chief executive of the Company) who had an interest or short position in shares or underlying shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group or held any option in respect of such capital.

4. MATERIAL CONTRACTS

The following contracts (not being contracts in the ordinary course of business of the Company) have been entered into by members of the Group within two years immediately the date of this circular which are or maybe material:

(a) an agreement dated 22 May, 2002 entered into between Dailywin Group Limited ("Dailywin"), Town Health International Holdings Company Limited ("Town Health") and the Company in respect of, among other things, the disposal by the Company and Town Health of the entire issued share capital of Reliance City Investments Limited and Plenty Time Investments Limited respectively to Dailywin;

(b) a conditional placing agreement dated 13 June, 2002 entered into between the Company and Kingston Securities Limited in respect of the placement of 4,500,000,000 shares of Dailywin Group Limited by Kingston Securities Limited at the placing price of HK$0.01 per share to certain independent third parties;

(c) a conditional placing agreement dated 24 June, 2002 entered into between the Company and Kingsway SW Securities Limited in relation to a private placing of 2,000,000,000 unlisted warrants at HK$0.001 per unit of warrant on a fully underwritten basis to certain independent third parties;

(d) an option placing agreement dated 9 July, 2002 made between the Company and the Kingston Securities Limited in relation to a private placing of the 64 options, each with a denomination of principal amount of HK$1,000,000 to certain independent third parties;

(e) an acquisition agreement dated 13 January, 2003 entered into between Rich Time Strategy Limited ("Rich Time") (a company incorporated in the British Virgin Islands and a wholly-owned indirect subsidiary of the Company) and Town Health Traditional Chinese Medicine Services Limited ("TH Medicine Services") (a company incorporated in Hong Kong and an indirect wholly-owned subsidiary of Town Health) in respect of the acquisition of HK$12 million of 2002 Convertible Notes by Rich Time from TH Medicine Services;

(f) an acquisition agreement dated 17 February, 2003 entered into between the Company and Town Health in respect of the acquisition by the Company of 27,799 shares of US$1.00 each in the capital of Bio Chapter Limited (a company incorporated in the British Virgin Islands with limited liability and an indirect wholly-owned subsidiary of Town Health) and the acquisition of the loan due by Luxembourg Medicine Company Limited ("LMC") (a company incorporated in Hong Kong with limited liability) to Town Health group in the amount of HK$2,655,305.48 as at 31 December, 2002;

(g) an acquisition agreement dated 17 February, 2003 entered into between Biomore Investments Limited (a company incorporated in the British Virgin Islands and an indirect wholly-owned subsidiary of the Company) and two individual shareholders ("Two Individual Shareholders") of LMC in respect of the acquisition by the Company of 517,556 shares of LMC from each of the Two Individual Shareholders;

(h) an acquisition agreement dated 8 July, 2003 entered into between the Company and WYT in respect of the acquisition by WYT of entire issued share capital of each of Bio Chapter Limited and Biomore Investments Limited from the Company;

(i) a placing agreement dated 29 August, 2003 entered into between the Company and the Kingsway SW Securities Limited in relation to a private placing of the convertible notes of WYT to certain independent third parties; and

(j) a conditional sale and purchase agreement dated 19 February, 2004 entered into between the Company and Bright Leading Limited (a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of WYT) and Advance Century Limited (a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of the Company) in respect of the acquisition by Bright Leading Limited of a 49% interest in the issued share capital of China Field Enterprises Limited (a company incorporated in Hong Kong with limited liability) from Advance Century Limited and the transfer of loan from Advance Century Limited to Bright Leading Limited.

5. LITIGATION

As at the Latest Practicable Date, no member of the Group was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance was known to the Directors to be pending or threatened by or against any member of the Group.

6. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contracts with the Company or any member of the Group (excluding contracts expiring or determinable by the Company within one year without payment of compensation other than statutory compensation).

7. CONSENT

The following is the qualification of the expert who has given its opinion or advice which is contained in this circular:

Name	Qualification
Vigers Appraisal and Consulting Limited ("Vigers")	Professional surveyors and valuer

Vigers has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and references to its name in the form and context in which it appears.

Vigers confirms that it does not have any shareholding in the Company or any of its subsidiaries or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

Vigers also confirms that it does not have any interest, direct or indirect, in any assets which have been, since 31 March, 2003 (being the date to which the latest published audited accounts of the Group were made up), acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

8. GENERAL

1. The registered office of the Company is at Clarendon House, 2 Church Street, 41 Cedar Avenue, Hamilton HM 11, Bermuda.

2. The head office and principal place of business of the Company in Hong Kong is at 5th Floor, Wai Yuen Tong Medicine Building, 9 Wang Kwong Road, Kowloon Bay, Kowloon, Hong Kong.

3. The company secretary of the Company is Ms. Li Yu Lian, Kelly. She is an associate member of The Institute of Chartered Secretaries and Administrators.

4. The branch share registrar of the Company in Hong Kong is Tengis Limited, at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong.

5. The English text of this circular shall prevail over the Chinese text in the case of inconsistency.

9. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the head office and principal place of business of the Company, at 5th Floor, Wai Yuen Tong Medicine Building, 9 Wang Kwong Road, Kowloon Bay, Kowloon, Hong Kong during normal business hours on any weekday (public holidays excepted) up to and including the date of the SGM:

(i) the memorandum of association and bye-laws of the Company;

(ii) the Irrevocable Undertaking;

(iii) the Conditional Sale and Purchase Agreement;

(iv) the material contracts referred to in the paragraph headed “Material contracts” in this Appendix;

(v) the written consent from Vigers referred to in the paragraph headed “Consent” in this Appendix;

(vi) the annual report of the Company for the year ended 31 March, 2003;

(vii) the unaudited interim report of the Company for the six months ended 30 September, 2003;

(viii) the circular dated 3 March, 2003 issued by the Company in relation to the proposed acquisition of approximately 52.26% in and a related shareholder's loan of Luxembourg Medicine Company Limited;

(ix) the circular dated 31 July, 2003 issued by Company in relation to the proposed sale of approximately 99.79% in Luxembourg Medicine Company Limited;

(x) the circular dated 22 September, 2003 issued by the Company in relation to the placement of 3.8% convertible notes issued by WYT;

(xi) the circular dated 20 April, 2004 issued by the Company in relation to the acquisition of property;

(xii) the annual report of WYT for the year ended 31 March, 2003;

(xiii) the letter, summary of values and valuation certificate prepared by Vigers, the texts of which are set out in Appendix III of this circular; and

(xiv) this circular.

WANG ON GROUP LIMITED
（宏安集團有限公司）*

(incorporated in Bermuda with limited liability)

(Stock Code: 1222)

NOTICE is hereby given that a special general meeting of the shareholders of Wang On Group Limited (the "**Company**") will be held at 9:30 a.m. on 4 June 2004 at 37th Floor, Citibank Tower, Citibank Plaza, 3 Garden Road, Central, Hong Kong for the purpose of considering and, if thought fit, passing the following resolutions, which will be proposed as Ordinary Resolutions of the Company:

ORDINARY RESOLUTIONS

1. **THAT** the conditional Sale and Purchase Agreement dated as of 8 April 2004 (the "**Sale and Purchase Agreement**") between Wang On Enterprises (BVI) Limited ("**Wang On (BVI)**"), a wholly-owned subsidiary of the Company, Source Millennium Limited ("**Source Millennium**"), a wholly-owned subsidiary of Wai Yuen Tong Medicine Holdings Limited ("**WYT**"), the Company and WYT, a copy of which has been initialled by the chairman of this meeting and for the purpose of identification marked "A", pursuant to which, inter alia, Wang On (BVI) agrees to sell and Source Millennium agrees to purchase:

   (a) the entire issued share capital of WOD Investments Limited; and

   (b) a related unsecured and interest free shareholder's loan with no fixed payment date which stands at the aggregate amount of HK$72,015,692 as at the date of the Sale and Purchase Agreement,

   at an initial consideration of HK$64,485,762, to be fully satisfied by payment in cash on completion, subject to adjustment after completion in accordance with the terms of the Sale and Purchase Agreement, be approved, and the board of directors of each of the Company and Wang On (BVI) be authorised to do all things and approve the execution of all documents in connection with or incidental to the Sale and Purchase Agreement, with such amendments or modifications (if any) as the relevant board may consider necessary, desirable or appropriate.

2. **THAT** the Irrevocable Undertaking dated 8 April 2004 given by the Company (the "**Undertaking**"), a copy of which has been initialled by the chairman of this meeting and for the purpose of identification marked "B", pursuant to which,

* *For identification purpose only*

inter alia, the Company has conditionally irrevocably undertaken to take up or procure the take up of all its or its subsidiaries' entitlements under the proposed issue of rights shares (the "**Rights Shares**") by WYT (being 325,393,989 rights shares) and any additional Rights Shares to be provisionally allotted to the Company or its subsidiaries in respect of any shares acquired by them on or after the date of the Undertaking and which are held by them as at the close of business on the Record Date (as defined in the Undertaking), and in addition, to make or procure an excess application for 210,000,000 Rights Shares (the "**Excess Application**") by the Company be approved, and the board of directors of each of the Company and its subsidiaries be authorised to do all things and approve the execution of all documents in connection with or incidental to the Undertaking, including without limitation, the subscription of the Rights Shares and making the Excess Application, with such amendments or modifications (if any) as the relevant board may consider necessary, desirable or appropriate.

By order of the Board
Wang On Group Limited
Kelly Li
Company Secretary

Hong Kong, 12 May 2004

Head office and principal place of business:
5th Floor
Wai Yuen Tong Medicine Building
9 Wang Kwong Road
Kowloon Bay
Kowloon
Hong Kong

Notes:

1. A member of the Company entitled to attend and vote at the above meeting is entitled to appoint one or more than one proxy to attend and to vote in his stead. A proxy need not be a member of the Company.

2. A form of proxy for use at the meeting is enclosed herewith. The instrument appointing a proxy shall be in writing under the hand of the appointer or his/her attorney duly authorised in writing. If the appointer is a corporation, the form of a proxy must be under its common seal or under the hand of an officer, attorney or other person authorised to sign the proxy.

3. To be valid, the form of proxy together with the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of that power or authority, must be deposited at the Company's registrar, Tengis Limited, at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong, as soon as possible and in any event not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof.

4. Completion and return of the form of proxy shall not preclude members from attending and voting in person at the meeting or at any adjourned meeting (as the case may be) should they wish, and in such event, the form of proxy shall be deemed to be revoked.